December 2022 Edition: 2

# E&S INSURER

Specialty risk and wholesale distribution

## Acrisure to consolidate wholesale panel and build out internal platform


**Acrisure is undertaking an exercise in North America to consolidate the circa $4bn of wholesale premium currently placed by its fast-growing ranks of acquired retail agencies through a large number of wholesalers into a smaller panel, including the big three brokers and its expansive inhouse platform, *E&S Insurer* can reveal.**

The inhouse platform is expected to bring together the majority of Acrisure's existing wholesale capabilities in the US – including recent acquisitions – under a single holding company with its own leadership, which will then be further Continued on page 10

## D&O writers worry dramatic rate reductions will continue into 2023


**The second half of this year has seen a notable fall in public D&O rates, with excess business particularly impacted as a result of new competition and incumbents fighting to keep business. The market is now asking whether this will continue into 2023 or whether there will be stabilisation.**

In the early part of this year observers were already highlighting a market turn, with a stabilisation from the increases in public D&O pricing that had been pushed through since 2019. Continued on page 19



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E&S INSURER
Specialty risk and wholesale distribution

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# Inside this edition

























# The retail-wholesale complex...

**Seventeen years ago in the aftermath of Eliot Spitzer's assault on the broking industry, Marsh, Aon and Willis all sold their wholesale brokerage operations.**

At the time, the divestments of Crump by Marsh, Swett & Crawford (then the largest wholesaler globally) by Aon and Stewart Smith by Willis were seen as defensive moves amid conflict-of-interest concerns raised by the then New York attorney general in his move against the industry's largest global broker.

But historians of the industry identify that moment as setting the scene for the dramatic transformation in the wholesale space – particularly in the last decade – that has seen the rise of the giants of Amwins, Ryan Specialty and CRC Group.

Amwins kickstarted its growth trajectory with the acquisition of Stewart Smith in 2005. Crump and Swett & Crawford were both initially acquired by private equity, but they were eventually picked up by BB&T (now Truist) as it built on its previously acquired CRC wholesale brokerage platform.

Disgraced former NY Attorney General Eliot Spitzer

It was from CRC, of course, that Ryan Specialty's Tim Turner-led RT Specialty brokerage was spawned with a mass defection more than a decade ago, in part (it has been claimed) because of the retail ties.

The separation of wholesale operations from Marsh, Aon and Willis created an opportunity for the independent wholesaler to forge a position.

And aided by other secular drivers and structural shifts, there was no looking back.

In an investor presentation earlier this month, Ryan Specialty noted the shift in the landscape of the top 10 P&C wholesale brokers in the 11 years since the firm was launched by Pat Ryan.

Then Amwins and CRC Group were ranked number one and two, followed by Swett & Crawford and Crump, and below them All Risks.

What is notable is that Amwins back then placed or underwrote just over $4bn of P&C premiums, with CRC Group around half that.

A look at 2021 data shows a dramatic transformation, however.

Amwins last year placed $23.8bn of P&C premiums, with Ryan Specialty on $16.7bn and CRC Group on $14.8bn. The drop-off to Risk Placement Services (RPS) in fourth spot is huge, with the firm on $4.5bn of P&C premiums.

The drivers, of course, are well-documented.

Consolidation of the wholesale space was fuelled by consolidation of retail – both in the sense of M&A and the dramatic rationalisation of wholesale panels by retail brokers.

## Then and now: wholesale market landscape and emergence of the top 10

Acquired by current top 10 wholesaler

| Rank | Company | 2010 P&C premiums ($mm) | Acquiror |
|---|---|---|---|
| 1 | AMWINS | $4,072 | |
| 2 | CRC Group | 2,145 | |
| 3 | Swett & Crawford | 2,100 | CRC Group |
| 4 | Crump | 1,383 | CRC Group |
| 5 | allrisks | 620 | RYAN |
| 6 | ARC Excess & Surplus, LLC | 480 | |
| 7 | WESTROPE | 401 | RYAN |
| 8 | pg | 322 | AMWINS |
| 9 | U.S. Risk | 307 | |
| 10 | BG | 223 | AMWINS |

Source: BI October 2011, Ryan Specialty

| Rank | Company | 2021 P&C premiums ($mm) |
|---|---|---|
| 1 | AMWINS | $23,800 |
| 2 | RYAN SPECIALTY | 16,700 |
| 3 | CRC Group | 14,800 |
| 4 | RPS Risk Placement Services | 4,500 |
| 5 | Bridge Specialty Group | 4,200 |
| 6 | JENCAP | 2,000 |
| 7 | Brown&Riding | 1,600 |
| 8 | U.S. Risk | 1,300 |
| 9 | ARC Excess & Surplus, LLC | 1,000 |
| 10 | PBC | 600 |

Only publicly traded "pure play" wholesale broker

Source: Dowling Hales Issue #14, Vol: 6, Ryan Specialty

What started with the big three consolidating wholesale broker panels from hundreds of firms to a handful – and sometimes only one to three – spread through the ranks of the top 100 brokers in the US.

The process is still going on. As we report in our lead article today, Acrisure is consolidating relationships with a focus on the big three and its inhouse wholesale capabilities.

The large number of private equity-backed retail broker consolidators is fuelling another wave of wholesale panel consolidation, as those firms look for efficiencies in their businesses.

At the same time the E&S market has seen dramatic growth.

A combination of cyclical and secular factors has led to faster growth in the E&S market than in the admitted market. The recent hard market has turbocharged that trajectory, and the percentage of E&S business of total North America commercial P&C premiums has shot up from 14 percent in 2015 to 20 percent last year.

The big three retailers – without inhouse wholesale brokers – have had to make greater use of the Amwins, Ryan Specialty and CRC in particular to place business with E&S carriers.

## Retailers building wholesale platforms

As those forces have driven the rapid growth of the big three to dominant positions, retail brokers are inevitably increasingly looking at the amount of business they are channelling to wholesalers and ways that they can recapture a portion of the economics.

This is nothing new, of course. Below the top three global brokers, other retailers that had wholesale operations, such as Arthur J Gallagher, did not go down the same path of divestment post-Spitzer. Gallagher's RPS is now the fourth largest wholesaler.
Indeed it was a retailer – USI – that acquired another top 10 wholesale broker US Risk only three years ago.

And Acrisure is only the latest example of a prolific acquirer looking to better organise wholesale operations that have either been acquired strategically or as part of retail businesses into a single platform.

Hub and Brown & Brown both have top 10 wholesale businesses – the latter reorganising 25 plus brands into its newly created Bridge Specialty Group platform only last year.

CRC, of course, is part of a platform that also owns retailer McGriff; retailer Epic and top 10 wholesaler Jencap are both under Galway Holdings; and Risk Strategies is the owner of expansive One80 Intermediaries.

Earlier this year, retail aggregator AssuredPartners launched its wholesale platform Accretive, and only last month World Insurance Associates consolidated its wholesale business under the Novatae Risk Group banner, before acquiring wholesaler MarketScout.

Independent wholesalers have long challenged the model of being owned by or affiliated with a retail broker. They argue that the "captive wholesaler model" (as they put it) is inherently conflicted, because retailers would not want to place business in the open market with a wholesaler related to one of their competitors.

But in the E&S sector boom, arguably all boats have risen with the tide in the last few years of the hard market. CRC doesn't appear to have been held back in a major way by having McGriff as a stablemate, and RPS has also shown strong growth.

## Select major US retailer brokers and their wholesale strategies

| Name | US wholesale platform | Note |
|---|---|---|
| Marsh | No | Sold wholesaler unit Crump to PE in 2005, subsequently acquired by CRC owner BB&T (now Truist). Marsh does have a wholesale desk in its QSG unit |
| AON | No | Sold its wholesale brokerage arm and then largest wholesaler Swett & Crawford to PE in 2005, subsequently acquired by CRC parent (then known as BB&T) |
| wtw | No | Sold its US wholesaler Stewart Smith to Amwins in 2005 |
| Gallagher | RPS Risk Placement Services | RPS is the fourth largest wholesaler and operates as an open market broker as well as providing a channel for Gallagher business to be placed with the E&S market |
| HUB | PBC Program Brokerage Corporation | PBC is actually the tenth largest wholesaler, according to Dowling Hales, with $600mn of premium volume. Hub also owns Specialty Programs Group |
| Brown & Brown Insurance | Bridge Specialty Group | Brown & Brown brought together 25 of its wholesale brands under new umbrella last year (including Peachtree Special Risk). Ranks as fifth largest wholesaler with $4.2bn of 2021 P&C premiums placed |
| Truist Insurance Holdings | CRC Group | CRC is the third largest wholesaler with $14.8bn of 2021 premium placed and sits alongside retailer McGriff and MGA giant Amrisc as part of TIH |
| Acrisure | Yes | Acrisure is bringing together in-house wholesale capabilities under a single holding company |
| Lockton | No | Retail only focus in the US |
| Alliant | No | Retail only focus in the US |
| USI Insurance Services | U.S. Risk | USI acquired US Risk in 2019. The Randall Goss-led firm is ranked as the 8th largest wholesale broker |
| EPIC Insurance Brokers & Consultants | JENCAP | EPIC sits alongside JenCap - the sixth biggest wholesale broker - under the PE-owned Galway Holdings umbrella |
| AssuredPartners | accretive | AssuredPartners launched wholesale and programs platform Accretive at the start of 2022, bringing together wholesale capabilities in firms acquired by the broker consolidator |
| NFP | No | Has built out specialty business and has programs operation but yet to make the wholesale brokerage play |
| BroadStreet Partners | No | But hired Mike O'Connor as president and is looking at the wholesale MGA/MGU space |
| AleraGroup | No | But has started building out an MGA platform |
| Risk Strategies | One80 Intermediaries | Wholesale broker and programs platform One80 launched in 2019 with former Lexington executive Matt Power as president. It is a wholly owned subsidiary of Risk Strategies |
| World Insurance Associates LLC | Novatae Risk Group | In November WIA consolidated its wholesale business under new banner, including Scottish American and Keating. It then acquired MarketScout, with Richard Kerr now leading the combined platform |

Source: *The Insurer*, company announcements, Dowling Hales

The question some are beginning to ask in the US distribution sector is whether the big three of Marsh, Aon and WTW – now so far from the spotlight of Spitzer – will look to take a different view of wholesale and their inhouse capabilities.

Acrisure has ambitions to build its inhouse wholesale operations – both to take more of the business generated by its retail agencies and in the open market.

Could the big three retail giants revisit their wholesale strategies and look to stem the flow of business leaking from their operations into the wholesale channel?

The counter-argument is that the wholesale giants have also become highly sophisticated operators at considerable scale, and they add a huge amount of value to their retail clients beyond basic placement services.

They have hired heavily in the last few years to draw significant amounts of talent to the industry and have deep skills in their areas of specialism.

There is also business that many would argue belongs in the E&S market and requires the expertise of wholesalers to place.

For example, would a person requiring an operation want to go to a surgeon who only does a particular kind of surgery every so often, or someone who is doing it day in, day out, and specialises in it, they might say.

There is, however, business that has entered the wholesale channel as part of the hard market cycle as a result of admitted markets retrenching. Many carriers have developed dual distribution strategies, with wholesale only divisions alongside those that only deal with retail brokers.

Would it then make sense for retailers to build the capabilities to directly access capacity through both channels?

Of course, there is a big difference between a global broker launching an open market wholesale platform to compete with Amwins or RT Specialty, and that same firm creating an inhouse unit to operate as a captive wholesaler in order to access E&S capacity.

And that latter approach looks to be the likely direction of travel in the next evolution of the retail-wholesale complex...

Happy Holidays and see you in 2023!

**David Bull**
Editor, *E&S Insurer*
North American editor, *The Insurer*

Continued from page 1

# Acrisure to consolidate wholesale panel and build out internal platform

built out through potential M&A and hiring. The firm is also entering discussions with carriers to have its North American wholesale operations approved as a single consolidated entity.

The Grand Rapids, Michigan-based firm's broader M&A strategy has seen it aggregate hundreds of retail agencies in recent years, growing to $4bn of pro forma revenue generated from placing around $32bn of premium.

Of that total, almost $4bn of premium is currently placed by Acrisure into hundreds of wholesalers of different kinds as a legacy of the relationships brought in by retail agencies it has acquired.

At the same time, the firm has been buying a smaller number of firms as part of a wholesale acquisition strategy – including large MGA platforms such as Appalachian and MJ Hall that have underwriting and brokerage operations.

It also has other wholesale operations acquired historically (including businesses such as Founders, DGA and GTU) and has some wholesale business embedded in a number of the retail organisations it has bought.

Speaking to *E&S Insurer*, Acrisure's president of global insurance Grahame Millwater confirmed plans to consolidate third party wholesale relationships and build out its in-house brokerage operations.

"Acrisure's history has been buying retail distribution and as a byproduct of that it's clear that we've acquired retail distribution that is placing business with a large number of wholesale entities.

## Talking Points

- Acrisure currently places around $4bn of wholesale premium with a large number of wholesalers from its growing portfolio of retail agencies
- Plans to consolidate relationships with focus on the big three wholesalers and its inhouse platform
- Is also bringing together existing inhouse wholesale capabilities under single holding company
- New platform will have its own leadership and build out through M&A and hiring
- Inhouse wholesale ops include brands such as Appalachian, MJ Hall, Founders, DGA and GTU
- Acrisure believes as it continues to grow so will flow to big three and its inhouse platform
- Tech and data will play a role in wholesale consolidation
- Acrisure will also look to build product through its MGA and programs business to join up placement needs of its retail agencies

"So as we've started to look at the business and that distribution, it's only natural that we've started to analyse where those wholesale channels are and why," said the executive.

The consolidation of broker panels was a big theme in the 2010s driven by the large global retail brokers, fuelling some of the dramatic growth seen at the now big three firms of Amwins, RT Specialty and CRC (see comment on page 4).

But the rapid scaling up of some of the retail consolidators in more recent years has created an opportunity for a second wave of broker panel consolidation.

Millwater added that the exercise at Acrisure has coincided with the firm stepping up its own wholesale acquisition strategy, as well as a move to bring a higher degree of integration to its retail distribution which in turn has led it to look at taking a more integrated approach to wholesale.

**"We want to ensure that we're using our own wholesale capabilities where appropriate, but also consolidate those hundreds of wholesale distributors into those relationships that make sense"**

Acrisure's president of global insurance Grahame Millwater

"The two naturally go together, because we want to ensure that we're using our own wholesale capabilities where appropriate, but also consolidate those hundreds of wholesale distributors into those relationships that make sense.

"We will have third-party wholesale relationships, but we intend to have fewer of them and, at the same time, we will balance that with a role for our own wholesale capability. We will be aware of where our strengths are and play to them, but also play to the strengths of third-party partners," Millwater added.

## Shift to scale

The focus of the consolidation of wholesale broker partners is likely to be on exiting smaller relationships where there is no critical mass, or limited value created.

Instead Acrisure will look to shift towards greater scale in both its third-party relationships and by increasing the scale of its internal capabilities.

Millwater said that there would still be growth potential for the large third-party wholesale relationships that remain. "We have great relationships with the larger third-party wholesalers, they add considerable value, and our flows with all the big three increase year after year.

We have also been open with all of them about our own capabilities, and they completely understand why we would target using those capabilities where they exist," he commented.

Those wholesale brokerages will benefit from the consolidation of Acrisure's many smaller relationships into their firms, as well as from the firm's continued strong growth trajectory as it continues to acquire retail businesses and grow organically.

"There's considerable upside from the consolidation of our wholesale panel, both for them and Acrisure," he continued.

## Acrisure's inhouse wholesale stable

| Name | Note |
|---|---|
| Appalachian Underwriters | Statement acquisition of wholesale MGA with brokerage arm at the start of 2022 |
| MJ Hall | California-based MJ Hall offers a range of wholesale products |
| Founders Professional | National specialty wholesale broker focusing on professoinal and management liability insurance, including lawyers, architects & engineers, medical and cyber liability |
| Demetriou General Agency | Acrisure's first wholesale acquisition operates out of NYC |
| Greenwich Transportation Underwriters | Wholesaler specialising in commercial auto coverage and logistics insurance nationwide |

Source: Acrisure, company announcements

Millwater noted that Acrisure's largest segment is its SME portfolio of retail business, which provides an alternative to business the big three wholesalers of Amwins, RT Specialty and CRC typically see from some of their bigger retail broker clients. There is also potential upside for Acrisure from the potential to put more business from its retailers – where appropriate – into its inhouse wholesale brokerage operations.

But the wholesalers it has acquired tend to also focus more on the small to middle market segments, rather than large specialty or global risks, which means they are quite well aligned with Acrisure's retail agencies, he said.

Currently a relatively small proportion of the revenue generated by its inhouse wholesale brokers comes from its own retail agencies, but in 2022 "our own wholesalers have seen a rapid acceleration of Acrisure related business", the executive added.

## Technology and London opportunity

Acrisure – which styles itself as a fintech company – is expected to utilise technology and data in a significant way as part of the wholesale consolidation process it is undertaking.

By gaining a better understanding of its portfolio and the risks in it, the firm will also be able to join up the placement needs of its retail agencies with creating product through its growing MGA and programs business.

Acrisure has also been building out its wholesale capabilities in the UK, providing its consolidated US wholesale business with London market capabilities and potential additional product.

"We have built the foundations for the future. We have our retail distribution; we have our wholesale foundations; we have our MGA foundations; we have our London wholesale foundations; we have our Acrisure Re foundations to access all varieties of underwriting capital, from traditional insurers, through Lloyd's, reinsurers and even insurance-focused funds," said Millwater.

**"We have great relationships with the larger third-party wholesalers, they add considerable value, and our flows with all the big three increase year after year. We have also been open with all of them about our own capabilities, and they completely understand why we would target using those capabilities where they exist"**

Millwater on big three wholesale relationships

Other developments Acrisure has driven in 2022 include the creation of its own Lloyd's syndicate, approved by the Corporation to start trading from 1 January 2023, and also the acquisition of the large and expansive international MGA Volante.

"So we have built the foundations and now we are building the house," Millwater concluded.

THE INSURER

Global risk capital intelligence

Subscribers to our sister publication *The Insurer* can read analysis of the Conning report referenced in this article by going to this link. The report looks at distribution costs, cost structure and ratios in a comparison between wholesale and retail channels as the research firm analyzed a wholesale composite that included 99 individual companies with $38bn in premium, and a retail composite that included 205 companies with $69bn in premium.


# Reinsurance support to hold key towards unlocking Lloyd's capacity for 2023

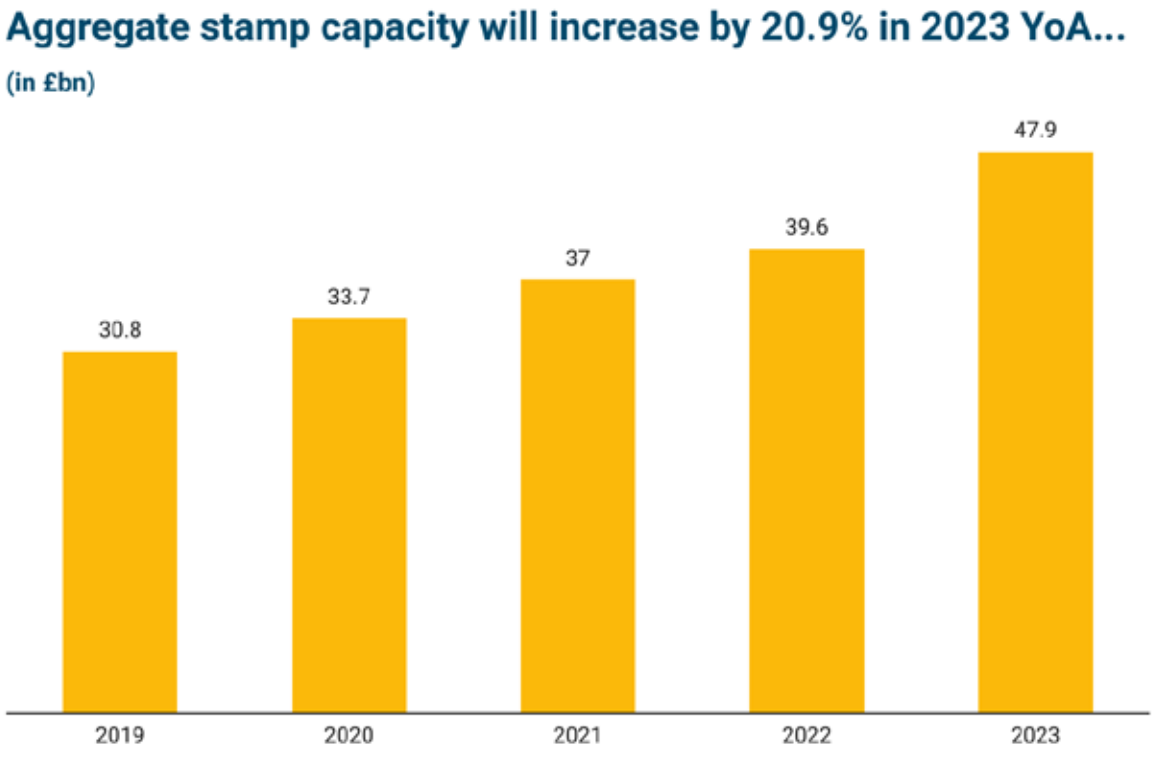
**Lloyd's syndicates have been bullish in their growth targets for 2023, but uncertainty over the outcome of the 1 January reinsurance and retro renewals raises questions over the impact on E&S capacity for US coverholders next year.**

In his Q4 market message Lloyd's chief of markets Patrick Tiernan revealed this year's business planning process was suggesting a market-wide GWP of £56bn ($68bn), up 14.3 percent year on year.

But he also acknowledged that market dynamics have shifted considerably since those business plans were submitted in September, with property and specialty markets experiencing a level of dislocation "which could not have been foreseen" three months ago.

Hurricane Ian's landfall in Florida, perhaps the biggest driver of this change in sentiment within property and specialty markets, has created both an opportunity and a challenge for Lloyd's syndicates.

Many are expected to resubmit business plans early next year as they look to grow their cat appetite to take advantage of post-Ian opportunities. The current crunch for reinsurance and retro capacity will also be a significant factor in determining whether syndicates can grow as originally intended. For many US coverholders, this uncertainty is an unwelcome challenge as year-end approaches, with the market being a key provider of capacity to US MGAs and other binder and delegated authority businesses.




Source: *The Insurer* intelligence

Anecdotally there is evidence that some of the larger cat-focused MGAs have paused quoting some business until their capacity position for 2023 is clearer.

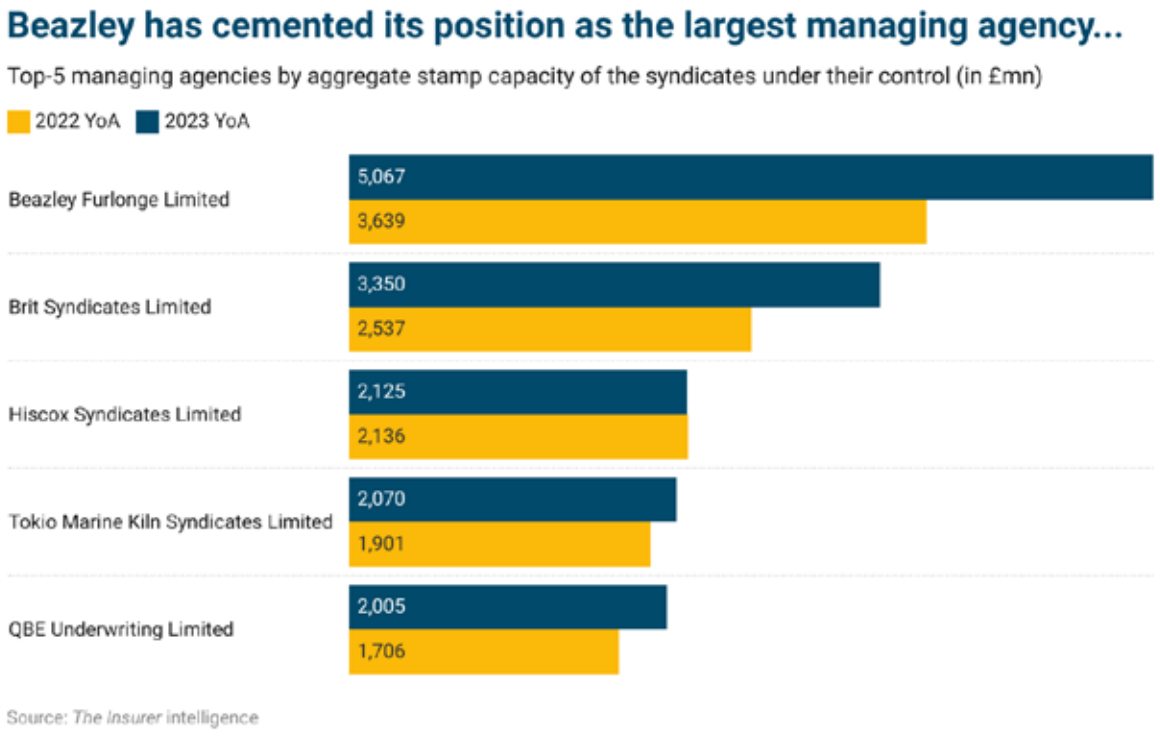
Lloyd's in aggregate remains the largest surplus lines insurer in the US, holding a 16.6 percent market share, according to the most recent data from AM Best. This equates to an annual premium base of $13.87bn, highlighting the significance of the Lime Street market as a source of E&S capacity in the US.

For coverholders in the US, the need for revisions around Lloyd's business plans means they may enter 2023 with uncertainty around the availability of capacity for the year ahead. Tiernan has said most resubmission requests are expected to occur after the new year once syndicates have more certainty around what their reinsurance and retro programs look like for 2023.

## Appetite to grow

The pre-emption process showed a clear desire among syndicates to increase their headroom for growth in 2023, with sister publication *The Insurer*'s annual stamp capacity survey indicating an increase of ~21 percent year on year with the majority approved to grow.

Beazley, the largest insurer at Lloyd's, is to grow its aggregate capacity to more than £5bn across its syndicates. The London-listed carrier has said next year could serve as a "springboard" for its long-term US ambitions as it grows its property book, as well as expanding its specialty and cyber offering. Brit Syndicate 2987, a prominent E&S insurer through its MGA Brit Global Specialty USA, will retain its spot as Lloyd's second-largest syndicate by stamp capacity after receiving approval to grow by 27.5 percent to £2.35bn.




Several other syndicates have received approval for large stamp increases, including CFC 1988 (80.3 percent), Everest 2786 (60 percent), Lancashire 3010 (50 percent)

In most cases, these increases reflect both an appetite for growth as well as factoring in the impacts of inflation.

## Sourcing capital

In the Q4 market message Lloyd's revealed total syndicate capital will increase by £6.3bn to £29.8bn based on current submissions, of which £4.4bn is accounted for by exposure growth and £2.1bn from foreign exchange impacts.

Inflation contributes a further £2.5bn to additional capital requirements, although this is offset by a £2.6bn positive impact from an increase in profitability.

Business plans will require resubmission if changes increase capital requirements by 10 percent or more, with syndicates facing the challenge of sourcing additional capital to support growth plans if sufficient reinsurance/retro cover cannot be obtained. Tiernan revealed some syndicates are already in the process of sourcing additional capital.

Most notably, Beazley has already successfully raised £350mn in additional capital to support its 2023 growth plans, while around 60 percent of syndicates form part of larger parent groups that will likely supply any additional capital required should they see the opportunity.

For the rest – and the US coverholders that rely on them for capacity – the coming weeks will see a nervous wait on the outcomes of 1.1. This uncertainty effectively leaves those coverholders in limbo as we approach 2023, as they await clarity from their syndicate capacity providers who are in turn awaiting confirmation from their reinsurers over programs for the year ahead.

Continued from page 1

# D&O writers worry dramatic rate reductions will continue into 2023

For example, Risk Placement Services (RPS) in a management and professional liability report issued in May had commented that the markets "appear to have turned a corner", noting that new entrants had helped temper the tightening in capacity and limits seen in 2021.

The situation has accelerated surprisingly quickly since then.

Speaking to *E&S Insurer*, Manny Cho, RPS executive vice president, executive lines, said that since that report was released "even in that brief span, we really saw the market change pretty dramatically" to be a lot more competitive.

"Capacity definitely increased and we started to see a change again in rates and rates on line for excess," he said. "Carriers became very, very aggressive and almost wiped out all the gains that they had made over the past few years in the public D&O space."

**"Carriers became very, very aggressive and almost wiped out all the gains that they had made over the past few years in the public D&O space"**

Manny Cho, RPS executive vice president, executive lines

He added: "It's taken a pretty dramatic turn to the insureds' benefit. If you're in good condition, you're pretty happy with the terms that you're seeing being put on the table right now."

The executive also noted that retentions over the past couple of years have been raised. He suggested this might be leading carriers to think they can give up some rate because they have a significant retention in place.

Kevin LaCroix, executive vice president at RT ProExec, a division of RT Specialty, told this publication that even by D&O standards the transformation of the market has been rapid.

## Talking Points

- Public D&O writers surprised about how quickly market turned in H2 2022
- New players continue to fight for business while incumbents defend their portfolios
- Some recent entrants looking to move down D&O towers
- Limits are starting to go back up but not yet near to pre-hard market levels
- More reserve increases likely, following AIG's hefty charge for 2018 and 2019 AYs
- IPO and SPAC deals have fallen off a cliff leaving more carriers competing for less business

"It's different than a year ago," he said. "It surprised everybody how quickly it changed. But I've been doing this since the mid '80s, and it doesn't surprise me so much. It is sort of in the nature of the cycle that it responds to pretty basic forces, mostly constraints of capacity or abundance of capacity."

More than a dozen new entrants have piled into the public D&O space since 2020, mostly on the excess side writing E&S business. But they are not solely to blame for pushing down rates. Incumbent markets have become increasingly aggressive about defending their business.

One driver of the rapid turnaround was many carriers setting 2022 budgets based on the assumption that the conditions of the previous year would continue. However, IPO and SPAC business has fallen off a cliff this year, leaving more carriers competing for less business.

Ray Santiago, head of financial lines, North America commercial P&C at Sompo International, also suggested that in commercial D&O "the pendulum has swung faster than we expected it to on the rate front". He highlighted several factors driving this.

"Marketing fatigue – brokers are locking up renewal business without a full marketing by getting incumbent markets to agree to rate decreases in advance, and that has certainly been a driver," he said. "I think business that was written last year at extremely high rates on line – 20 percent, 30 percent, seven-figure premiums – is under attack competitively, and that is driving rate as well."

"And then when you consider the inflow of new capacity, while they're not primary or strategic excess participants on a tower generally speaking, they are having a profound impact on excess placements."

But he added: "Interestingly when I look at our commercial book, the wholesale rate is probably about two to two-and-a-half points less giveback than retail."

What does 2023 hold?
RT ProExec's LaCroix said that the question everyone is now asking is what the experience of the past few months means for 2023. There are some optimistic suggestions that the rate decreases will peter out, he reported.

"I've heard some pretty intelligent, respectable

## IPO and SPAC deals fall off a cliff

| Year | SPAC IPOs | US IPOs | SPAC % | SPAC Proceeds $mn | US IPO Proceeds $mn | SPAC % |
|---|---|---|---|---|---|---|
| 2022 | 83 | 108 | 77% | 13,204 | 19,264 | 69% |
| 2021 | 613 | 968 | 63% | 162,503 | 334,650 | 49% |
| 2020 | 248 | 450 | 55% | 83,386 | 179,389 | 46% |
| 2019 | 59 | 213 | 28% | 13,600 | 72,200 | 19% |
| 2018 | 46 | 225 | 20% | 10,750 | 63,890 | 17% |
| 2017 | 34 | 189 | 18% | 10,048 | 50,268 | 20% |
| 2016 | 13 | 111 | 12% | 3,499 | 25,779 | 14% |
| 2015 | 20 | 173 | 12% | 3,902 | 39,232 | 10% |
| 2014 | 12 | 258 | 5% | 1,750 | 93,040 | 2% |
| 2013 | 10 | 220 | 5% | 1,447 | 70,777 | 2% |

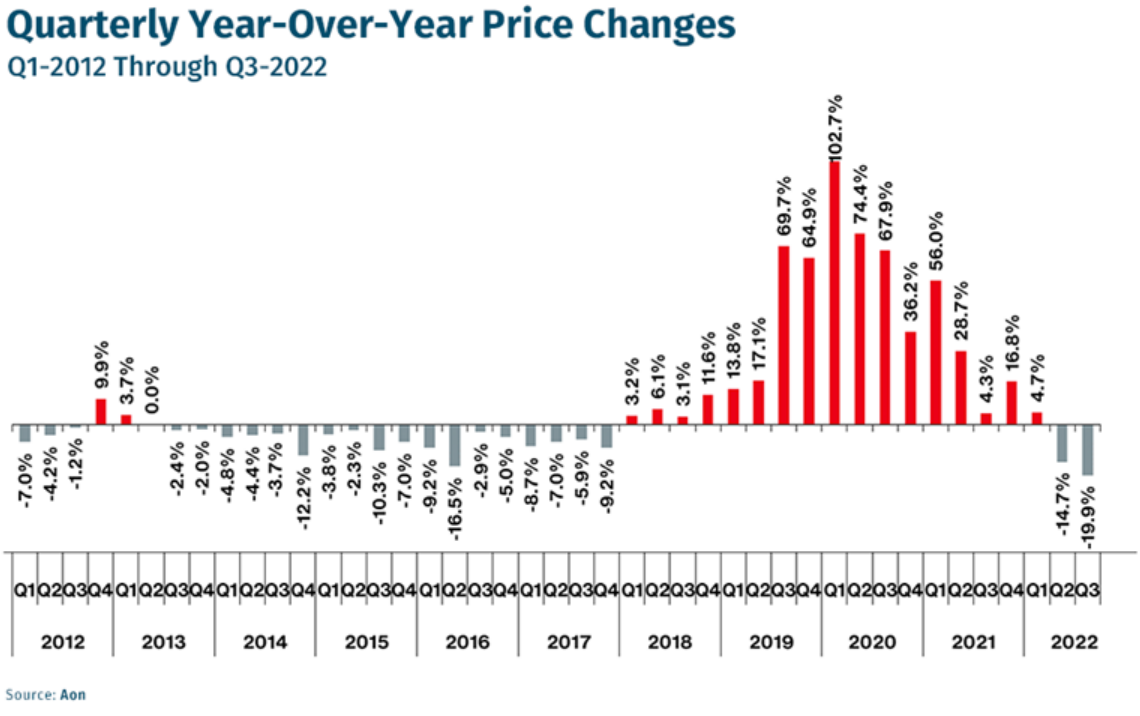
Source: Spac Analytics

comments saying that, for a lot of reasons having to do with the carriers' results and so on, pricing will stabilise at a level lower than we saw during the hard market but at a level commensurate with the risk. I hope those people are right. For the health of the market I think that would be a good thing."

But LaCroix added: "I don't know that we can count on that, and I'm actually a little bit pessimistic."

David Lewison, Amwins' national professional lines practice leader, noted that one dynamic is that many new entrants have done the opportunistic writes and now are coming up on their first rounds of renewals.

"And standard markets from what I've heard are increasing capacity," Lewison said. "So if they'd cut their primaries from 20 to 15 to 10 to five or something, they might do 10 on the primary or they might do five primary and then attach a couple more times going up the tower. That's crowded out some of the new capacity, and so they've done sillier things."




Lewison said that in larger towers there is a twofold impact of the primary decrease driving decreases further up the tower as well as increased limits factors (ILFs) dropping to around 50 percent from the "fatter" ILFs of the past few years of 80 percent or higher. "So the farther you are up a tower, you might be taking a 70, 80 percent decrease," he said.

Lewison added: "It's a little messy and I hear a lot of frustration from markets that maybe the market got a little too hard too fast and potentially overshot the mark, but they're not sure because D&O is a long-tail business. So when they see the rates going back down, they're saying we can't go back to where we were, because that's what caused the hard market."

In an article published in December, CRC also highlighted that public D&O pricing in 2022 has dropped significantly, enabling some companies to obtain coverage with rate reductions of more than 50 percent.

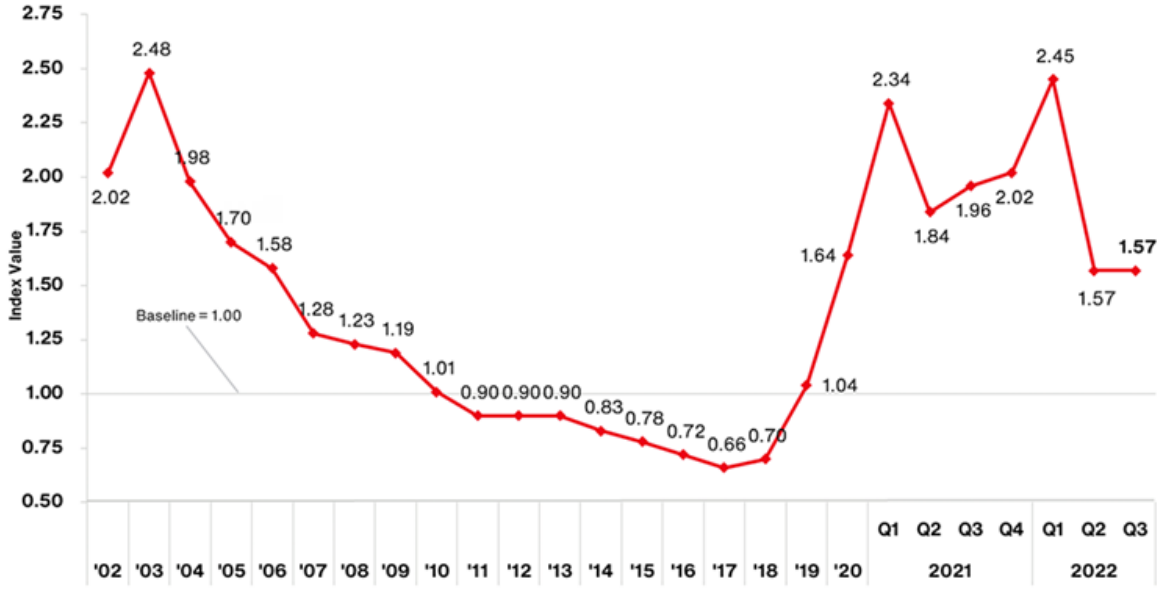
"During 2022, rates for primary D&O coverage have dropped by 15-20 percent, with more reduction coming on the excess, as increased limit factors are coming down from a high of 90 percent to a range of 60-70 percent," the Truist-owned wholesaler said. "On the other hand, D&O coverage remains expensive for certain sectors, including blockchain, cryptocurrency and cannabis."

Amwins' Lewison does not believe that there will be "out of control decreases on D&O into next year". Rather, he expects 10-plus percent decreases lower in a tower through the next three quarters, "and then the carriers will be reassessing as they go".

"The bottom has already sort of fallen out so how crazy do they want to be?" Lewison asked. "I can't imagine they would put up with too much more decreases."

## Quarterly Index of D&O Pricing

2002 Through Q3-2022 | Base Year: 2001 = 1.00




Source: Aon

In addition to pricing, another test will be whether the limits management of the past few years will hold. AIG and Lloyd's led the way – and all other players followed them – in greatly reducing the capacity being offered, meaning more carriers were needed to fill a tower.

"I think everybody is still being pretty diligent about capacity management," said RPS's Cho. "We're not seeing 15 to 25s anymore. I think that piece will still hold and that's where having a number of players in the market does come into play. It's good for the insureds to have a number of choices around capacity.

"When people are starting to put up 15 to 20 that's when we know we're back into the really bad stages again."

But Cho said bad habits are likely to return at some point.

“We are the personification of the definition of insanity in this industry – doing the same thing over and over again, hoping for a change. I wish I could say that it's not going to come back, but I'm sure it will,” he said.

Another trend to watch is whether the new entrants look to move further down towers.

One example of this is Falcon Risk Services – an MGA launched in June 2021 by former Argo Pro president Craig Landi, along with support from HDI Global Specialty and investment firm Griffin Highline – rolling out a primary public D&O product in November this year.

Amwins’ Lewison said the newer players would happily move further down the towers to hold on to some of the premium.

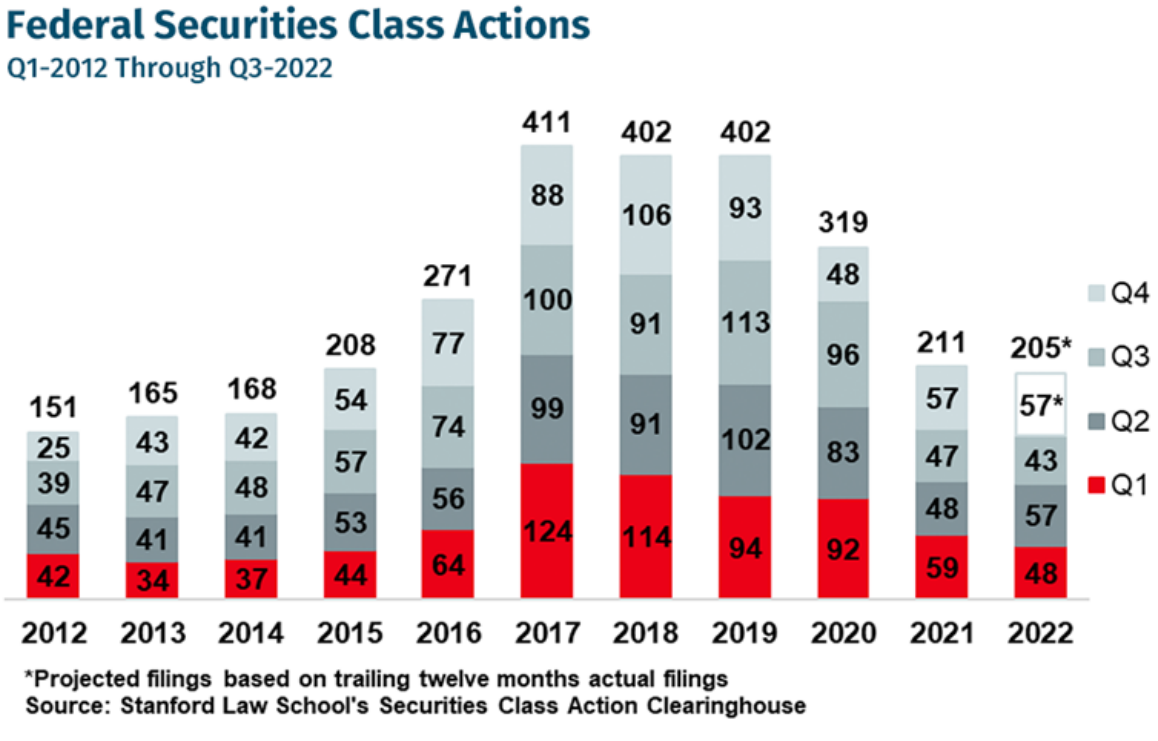
“But the carriers that are down there I don't think are exiting to create space,” he said. “And  would you replace a well-known brand carrier with a newer player farther down if you didn't have to?”

## More reserve increases to come

A question is whether the good times lasted long enough for D&O carriers to make money over the long term.

“Underwriters would probably say that they would love to have at least another year to build up the books again,” said RPS’s Cho. “The loss perspective looks pretty similar to some of the past years.”

One worrying sign for the market came in November when AIG reported $660mn of



unfavourable development on its US financial lines portfolio, net of its Berkshire Hathaway adverse development cover.

The reserve charge was primarily driven by excess D&O written out of both the US and Bermuda for 2018 and 2019 accident years. Explaining the action, AIG CEO Peter Zaffino pointed to the impact of securities class actions (SCAs) and earlier accident years where stacking exposures meant that primary, mid-excess and high excess policies were all exposed on the same insured.

The loss dynamics in the public D&O market at the moment lend themselves to different potential interpretations.

An optimist can point to SCAs since 2020 being much lower than the 2017-2019 peak. A pessimist, however, can note that there are still over 400 unresolved suits, which can contain some worrying exposures as highlighted by AIG's reserving action. Sompo International's Santiago said that there is not enough focus in the market on prior year development.

**"There is still a very large pipeline of cases from prior years that are yet to be resolved. Many of them may not yet be fully reserved, and they're going to have to be fully reserved in 2023 and 2024. So that will affect calendar year underwriting results"**

Kevin LaCroix, executive vice president at RT ProExec

"Preliminary views of 2020 and 2021 tend to be positive due to filings being significantly down, but we haven't seen the majority of PYD work its way through yet," he said. "When you take that in conjunction with social and macroeconomic inflation, in general, there are some real concerns."

He added: "Most of us can't necessarily predict where that litigation is going and whether the last three years of rate was enough to make up for the negative development, but my biggest concern is the giveback of rate without the understanding of how those years are going to develop given the significance of the inventory."

However, a problem for the market is that this is not such a concern for newer players that do not have pre-2020 business on their books.

RT ProExec's LaCroix also warned about the potential losses for the market. "There is still a very large pipeline of cases from prior years that are yet to be resolved," LaCroix said. "Many of them may not yet be fully reserved, and they're going to have to be fully reserved in 2023 and 2024.

So that will affect calendar year underwriting results. That's going to be the world that the D&O insurers live in. And when people talk about the likelihood there will be stabilisation in 2023, that's kind of what they're talking about."

The executive noted that, while SCA filings are down, much of the inflated volume in the 2017-2019 years was from merger objection litigation. “Most of that wasn't going to hit the D&O carriers anyway because most public company policies have a very large self-insured retention for merger litigation,” he said.

LaCroix continued: “If you strip that out and look at long-term norms, the numbers are down but only relative to recent years. They're actually quite in line with long-term historical trends. So it could put too much emphasis on the ebb and flow of securities class actions.”

## Cyclical shift in PL

Commenting on the professional lines space in general, Sompo International’s Santiago said he has a “very positive view” and is confident about growth. Wholesale business represents about 20 percent of the portfolio, with four of Sompo International's top 12 brokers from a production perspective being in the wholesale space.

The two lines that attract the most attention are public D&O and cyber. In contrast to the former, the cyber market continued to push through large rate increases in the first half of this year.

**“Most of us can't necessarily predict where that litigation is going and whether the last three years of rate was enough to make up for the negative development, but my biggest concern is the giveback of rate without the understanding of how those years are going to develop given the significance of the inventory”**

Ray Santiago, head of financial lines, North America commercial P&C at Sompo International

“If we had this conversation a year ago, it was all about commercial D&O and less about everything else,” said Santiago. “That pendulum has swung this year where cyber, in particular, is driving the activity within the space when you talk about rate and opportunities in general, and that is also the case in the wholesale channel.”

However, Santiago reported that submission flow generally is flat and for commercial management liability it is down. “I think there's a bit of marketing fatigue and also fewer transactions, as a result of the IPOs, and the SPAC market has quieted down along with the IPO market given the volatility in the equity markets as a whole,” he said. “So the activity that we have seen has been focused on cyber.”

But even cyber may now be turning, reports RPS’s Cho. Aside from public D&O, Cho believes that the next year is “going to be pretty challenging in other areas”.

“I think the only market that we're seeing that we'll be looking for rate increases

next year will be on the A&E side. Every other sector that we're looking at, though, is probably going to go through a very competitive cycle next year, especially cyber." This has ramifications for the wholesale market, which has benefited from a surge of business into the space as the market hardened.

Discussing D&O, LaCroix said that most of the new players that came in during the hard market were E&S players and wholesale only markets.

"So to have access to these markets, the retailers had to go through wholesalers," he said. "As capacity has eased the need for some of those players to complete a program may have diminished." He said this means some of the business that came to the wholesale market because of capacity shortages may fall off.

"So at the margins it may mean a shift in that type of business," LaCroix said. "But in the longer term, it is not merely the capacity itself that the good wholesalers are offering.

**"It's a little messy and I hear a lot of frustration from markets that maybe the market got a little too hard too fast and potentially overshot the mark, but they're not sure because D&O is a long-tail business"**

David Lewison, Amwins' national professional lines practice leader

They're also offering the expertise and the quality of the placement and that should continue to be a factor for the success of many of the top wholesale players." However, Amwins' Lewison said the current phase of the market does present challenges for wholesalers in the professional lines space.

"As a wholesaler we're seeing the standard markets step up and do more because they're trying to hold on to some amount of money even if it means more limit," he said. "That's just business that'll stay in the retail channel and so there is less for us.

"So we're trying to emphasise to our brokers that it has been a nice bubble, the ride in D&O and cyber rates for two years.

But that wave is crested and it's coming back down. So it's back to business as usual before that bubble existed."

He said older brokers that have been in the business a long time have seen this before but that some younger brokers are "stressing a little bit more because they haven't seen it". He added: "I haven't heard of cyber getting as ugly, which is good, but everybody's nervous that's the next one.

We've been seeing rates up 100, 200 percent on sizeable cyber deals in the past couple of years. We've all known that wasn't sustainable. But if that starts plummeting, then it will be a little nerve wracking."


# The Hartford says Navigators acquisition was well-timed for E&S opportunity

**The Hartford chairman and CEO Chris Swift said that the fast-growing E&S segment will contribute a larger percentage of the US insurer's commercial lines portfolio in the future as he also suggested the company will lean into the hardening property market.**

Speaking at the Goldman Sachs 2022 Financial Services Conference last week, the executive noted that the carrier has now grown to over $1bn of E&S premiums coming from new relationships or those inherited following its acquisition of Navigators three years ago.

Swift said the E&S market is going through structural change and highlighted the greater flexibility it offers in terms and conditions and pricing.

That flexibility would be particularly relevant to property risk and some areas of excess casualty risk going forward, he added.

"We like our positioning. We play in both [E&S and standard line], obviously. We manage both on a separate basis so there are no conflicts.

"But I think we picked the right time to purchase Navigators to be in the E&S marketplace," he explained.

Swift continued that The Hartford has a strategy to become a larger player in the E&S market and small commercial – with a focus on the E&S side of small commercial.

## Property growth

The executive also described property as "the most dynamic part of the market", as he noted that the company has property capabilities across its small, middle and large account segments and E&S.

**"I think we picked the right time to purchase Navigators to be in the E&S marketplace"**

The Hartford's Chris Swift says E&S business will contribute a larger percentage of the carrier's commercial lines portfolio

"From a portfolio side, The Hartford is underweight property risk today and it's actually one of our growth areas.

We think it's actually a pretty decent time to lean in in a thoughtful way … not on a widespread cat basis, but just widespread property.

"But you've got to be very disciplined in making sure you're making adequate risk-adjusted returns," said Swift.

The comments from The Hartford's chairman and CEO come after Navigators' head of wholesale Michael Garrison told our sister publication *The Insurer* at the WSIA's Annual Marketplace event in San Diego in September that the stressed property market offers opportunities to the carrier to evolve its portfolio.

Garrison emphasised that Navigators is "looking to be better balanced" in its writing of first-party coverages versus its historical leaning towards casualty.

"There are opportunities in the property market that we believe make sense for us to underwrite," he explained.

Despite Navigators' willingness to grow in property, The Hartford's specialty division remains cautious in growing its cyber portfolio.

"I don't think we'd be called a cyber market," Garrison said. "We are more conservative in that space and we continue to evaluate our appetite."

He added: "I think it's something as we look going forward – we may be a more dedicated market to cyber in a certain segment," the executive commented, referring to small-to-middle market risks in particular.


# Chubb targets further E&S growth through Westchester and Lloyd's

**Global insurance giant Chubb has identified E&S as a segment to be targeted for revenue growth, according to an investor presentation earlier this month.**

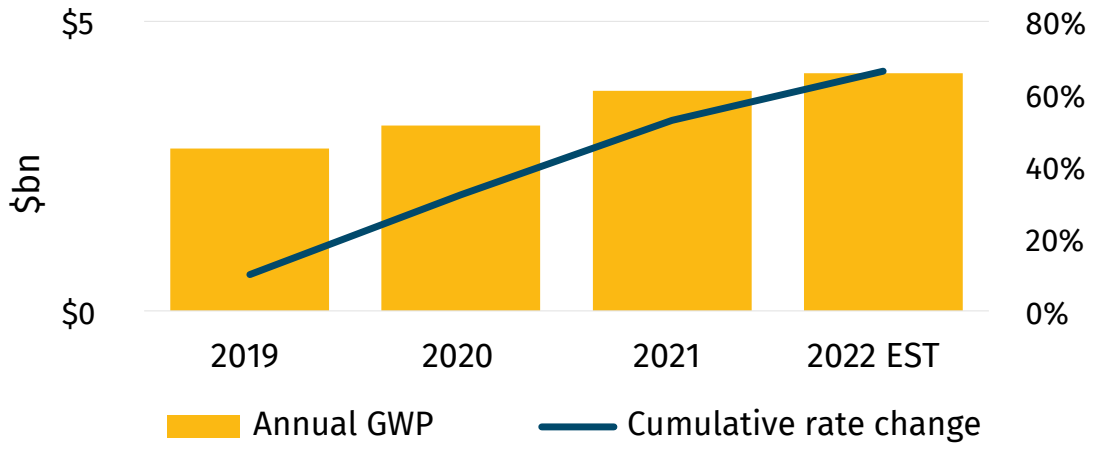
In the document, the Evan Greenberg-led carrier identified revenue growth and further diversification as one of three core objectives alongside growing earnings power and strengthening its balance sheet and capital flexibility, as it seeks to create sustainable value in the short, medium and long term.

Part of that strategy to grow revenue includes targeting expansion in mid-market and small commercial globally, and the E&S sector. Chubb's global E&S portfolio includes a significant US E&S presence spearheaded by Westchester, and surplus lines business written out of Lloyd's.

Together they contribute 12 percent, or $5bn, of the carrier's group level pro forma net written premiums (NWP) of $44.7bn for 2022. The presentation broke out details of Westchester, which is ranked as the third-largest E&S specialty insurer, said Chubb.

The unit – which is led by divisional president Scott Meyer – underwrites a broad specialty product set and is distinguished by its digital platforms and extensive regional footprint, which have enabled continued growth in the current P&C cycle, said the company. Chubb estimated it will write $4.1bn of specialty premium out of its projected $33.2bn gross written premium for North America across retail commercial, personal risk services and agriculture.

# Westchester grows with E&S hard cycle




Source: Chubb

Westchester operates with exclusive wholesale distribution. That strategy combined with "the stability and depth of leadership and product teams create loyalty", said Chubb in the presentation.

It added that Westchester – which operates through brokerage, small business and programs divisions – is focused on delivering property cat and casualty offerings at "adequate prices". "Technology investments enable direct connections to broker systems and efficient processing of elevated submission activity," the document continued.

Chubb said Westchester is expanding risk appetite and leading capabilities in a firming market in property, management liability and excess casualty.

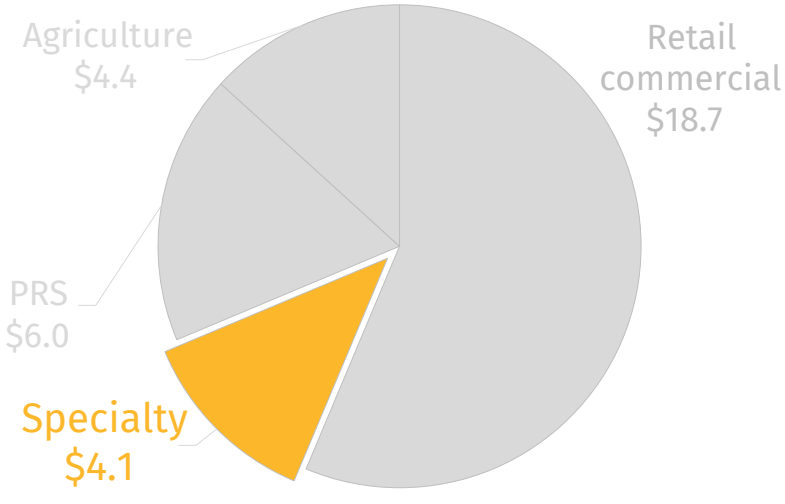
The unit is estimated to have achieved cumulative rate change since 2019 in the region of 60 percent, while significantly growing top line.

It receives 500,000 submissions annually across its 130+ brokerage product offerings, with 560+ broker partners across more than 1,600 locations.

Chubb said it will also look to expand its E&S offerings for cat risks in its personal risk services division, which serves as a leading high net worth insurer in North America.

## North America GWP 2022 Forecast (US, CDA, BDA)

$33.2bn GWP full year estimate




Source: Chubb

## Global E&S contributes to profitable growth

In the first nine months of this year, global E&S NWP from Westchester and Chubb's Lloyd's business was $3.9bn, up 18 percent compared to the same stage three years ago as the carrier grew with the P&C market turn.

The growth rate of the global E&S business outstripped the 12 percent overall expansion in commercial lines to $18.1bn in the same period.

Across commercial lines, underwriting income grew by more, at 21.5 percent to $3.0bn, with a combined ratio that improved by 4.2 points to 82.8 percent on a reported basis, and by 5.8 points to 81.6 percent on an underlying basis.

On Chubb's third quarter earnings call in late October, chairman and CEO Greenberg was asked about the outlook for the E&S market and whether it would continue to grow at a faster rate than the admitted markets because of the complexity of risks.

The executive said that would vary by line of business, suggesting that in property cat the E&S market will come under pressure because of reinsurance availability and that of capital that uses E&S to front for it.

"I think that problem is in front of the E&S market overall. But while that may impact its overall exposure growth, I think rate is going to overwhelm it," he added.

Greenberg suggested that in casualty the admitted market – which has given up considerable volume to the E&S market – will probably grow faster than the non-admitted market going forward.

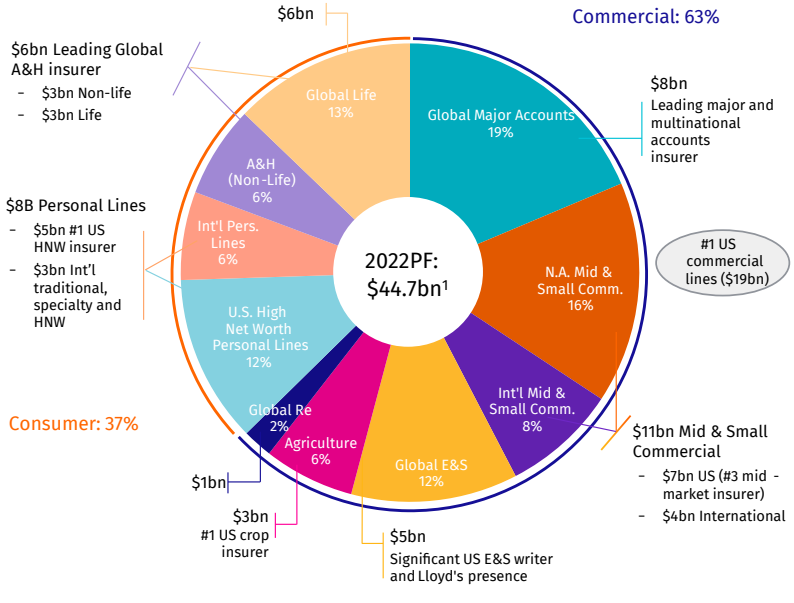
"From my point of view, I'm playing both tables aggressively where I see opportunity ... so whoever wins the race, wins the race," he said.

Chubb reported that in its E&S wholesale business, rates increased 9 percent in Q3, with pricing up nearly 13 percent.

Property rates were up about 11.5 percent, casualty rates were up 8.5 percent, and financial lines rates were up almost 9 percent.

## Global E&S accounts for 12% of Chubb NWP

- 10 distinct segments, each with at least $1bn of premium




1. Pro forma for full year of Cigna and Huatai

Source: Chubb

NOVEMBER 30

# Amwins acquires Arena Special Risks


**Amwins has acquired Arena Special Risks' wholesale business from commercial real estate and retail broker Franklin Street Insurance Services.**

Based in Atlanta, Arena Special Risks is a commercial insurance wholesale broker specialising in commercial real estate and surplus lines. The broker was established by former Franklin Street president Andrew Kiernan.

Amwins has a long-standing relationship with Franklin Street. The acquisition is intended to allow the latter to focus its core business in the real estate sector. Amwins Brokerage president Jeff McNatt commented: "Our ability to handle challenging catastrophic exposed accounts is a major driver of the partnership along with our strategic market relationships that continue to bring the best available solutions to our retailers and their insureds."

Kiernan, who now holds the role of president of Arena Special Risks, concluded: "This is a win-win-win for all parties. The products and high-level of service that Amwins provides will only enhance the resources of this collaborative team."

DECEMBER 01

# E&S start-up AM Specialty secures A- rating from AM Best


**AM Specialty Insurance Company (ASIC) – the new E&S start-up carrier from the founders of AM Re Syndicate – has been assigned a financial strength rating (FSR) of A- by AM Best.**

Arizona-domiciled ASIC received authorisation to operate as a domestic surplus lines insurance company in September. The business, which AM Best has also assigned a long-term issuer credit rating (ICR) of "a-", will write various specialty insurance products for the primary program insurance business segment across the US.

AM Best said the FSR and long-term ICR reflect ASIC's "very strong" balance sheet strength, along with its adequate operating performance. ASIC's strongest level of risk-adjusted capitalisation, as measured by Best's Capital Adequacy Ratio, is supported by the nascent carrier's conservative investment portfolio, AM Best said.

The rating agency anticipates ASIC's level of risk-adjusted capitalisation will remain at the strongest level over the course of its initial five-year start-up period.
ASIC's launch has been well over two years in the making. The team behind AM Re Syndicate – Shevawn and Simon Barder – are understood to have first begun sounding out potential investors in 2020.

DECEMBER 02

# Texas and Florida stamping offices report strong October E&S premium growth


**The Florida Surplus Lines Service Office has reported premium volume up 26 percent to $790.1mn in October as the Surplus Lines Stamping Office of Texas (SLTX) said E&S premium volume recorded in the state was up 17.9 percent to $827mn on the same month last year.**

The year-to-date total in Florida is up 29 percent to $10.26bn, with Texas seeing 26 percent growth to $9.56bn compared to the same stage of 2021. SLTX said 55.7 percent of premium reported – or 32.9 percent of items – related to renewal policies, with 39.1 percent of premium, or 30.8 percent of items, from new business, with the balance from non-policy transactions.

Commercial fire/allied line coverage saw the largest increase in overall premium volume at $50.3mn, or 27.2 percent. Commercial general liability premium volume was up 15.5 percent, or $16.1mn, with excess/umbrella liability coverages up 11.0 percent, or $15.4mn. SLTX said Texas surplus lines premiums continue to trend with existing hard-market conditions.

As reported in the November issue of *E&S Insurer*, Texas, California and Florida are all on course to generate an even greater level of surplus lines growth this year than last year.

DECEMBER 05

# Amwins hires Nirvana's Nuest as transportation leader


**Wholesale giant Amwins has appointed Jennifer Nuest to the newly created position of transportation practice leader.**

Nuest most recently worked for auto-focused insurtech Nirvana Insurance. In her new role, Nuest will be responsible for managing key business initiatives working alongside all Amwins divisions and coordinating with other practice leaders to meet the coverage needs of transportation clients.

Amwins said its market share in the transportation sector is currently over $2bn in annual premium and includes 20 in-house products and programs. Nuest has 13 years of transportation insurance industry experience, having previously worked for a carrier, retailer and insurtech start-up.

She has been business development manager at Nirvana since June 2021. Before that she was a transportation marketing coordinator at Hub for two years and held a number of roles at Protective Insurance, where she worked for over nine years.

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DECEMBER 05

# Greg Butler to join Hub to create wildfire and other cat capacity solutions


**Greg Butler is set to take a senior strategic position at Hub International with a focus on sourcing and managing cat capacity and potentially creating facilities to address the wildfire peril, with the executive leaving his long-standing CEO role at Victor's property-focused MGA Icat, our sister publication *The Insurer* revealed.**

Sources said that Butler – also a former CEO of the California Earthquake Authority – will report to Hub's president of programs and specialties Chris Treanor and is expected to officially join in the new year. Hub has a large book of high net worth personal lines business as well as commercial business across its brokerage and underwriting operations that is being impacted by the dislocation in the cat market, especially in relation to wildfire.

It is expected that Butler will initially work on bringing wildfire capacity to Hub brokers but is also likely to look to build a facility, program or MGU to bring solutions via the firm's Specialty Program Group platform, which is overseen by Treanor. Butler had been at property cat-focused MGA Icat – which was bought by Victor (then Schinnerer) in 2017 – since 1999.

DECEMBER 05

# Navigators names St Denis wholesale CUO


**The Hartford has named Lynanne St Denis as chief underwriting officer for wholesale in its Navigators unit, with the executive previously serving as head of Hartford Excess Solutions.**

The insurer said that St Denis in her new role "will help drive the existing commitment to improved underwriting excellence, operational efficiency and strategic advancement across the multiple lines within the wholesale business".

She served as underwriting officer for commercial excess casualty from mid-2019 to mid-2021. Since 2009 St Denis has held various excess casualty roles at Navigators, which was acquired by The Hartford in May 2019. The Hartford in October 2021 named Michael Garrison as head of wholesale for Navigators, with the executive joining from Allied World.

In an interview with sister publication *The Insurer* at the Wholesale and Specialty Insurance Association's annual marketplace in September, Garrison said Navigators is "looking to be better balanced" in its writing of first-party coverages versus its historical leaning towards casualty, with the company looking for opportunities in E&S property.

DECEMBER 06

# Tapco names long-serving execs Allred and Clancy as president and CUO


**Tapco Underwriters, a division of wholesale specialty insurance distributor CRC Group, has appointed Keith Allred as president and Virginia Clancy as CUO, effective 1 January 2023.**

Tapco is an E&S MGA specialising in the placement of commercial and personal lines insurance coverage. Allred succeeds long-time president Bill Pinson, who passed away unexpectedly in June, prompting an influx of industry condolences and tributes.

With more than 30 years' experience in E&S insurance, Allred joined Tapco in 1991 as an underwriter. Following a period as director of commercial lines insurance, he has served as vice president since 1998.

He will continue to be based in Burlington, North Carolina, reporting to West McAdams, president of CRC Group's binding division.

Also a long-term Tapco employee, Clancy opened the MGA's Clearwater, Florida office in 1994 and has since led the Florida region, serving as vice president since 2000.

DECEMBER 06

# WR Berkley: "Very healthy flow" into specialty


**WR Berkley's Rob Berkley has commented that standard market players are remarkably aggressive for risks that fall within their appetite but a "very healthy flow of business" is still going to the specialty area, with the executive also raising concerns over coming severity challenges for the workers' compensation market.**

Speaking at the Goldman Sachs 2022 US Financial Services Conference, the WR Berkley president and CEO commented that his company is very much a specialty player.

"To be a commodity player, you have to have the most efficient factory floor and the cheapest cost of capital, and we reached a conclusion that we are not going to be and we don't want to be State Farm, Travelers, Liberty or any of those household names. They're bigger than us.

"We think the specialty lines are not about who has the cheapest cost of capital, though of course we care about our cost of capital. It's much more about knowledge, expertise and intellectual capital, which is how you differentiate yourself and how you select and how you price risk and how you adjudicate claims and everything in between those bookends."

DECEMBER 06

## Novatae buys construction specialist


**Novatae Risk Group, the recently rebranded wholesale operations of World Insurance Associates (WIA), has acquired Washington-based Olympic Advisors, which operates as Nationwide Contractors' Alliance (NWCA).**

NWCA serves the risk management needs of the construction industry and its insurers, and is led by Treacy Duerfeldt. The company works with the construction industry's retail agents to place tailored insurance policies through Wise Insure, its wholesale insurance brokerage. The acquisition of Lacey, Washington-based Olympic Advisors closed on 1 November 2022.

Terms of the transaction were not disclosed. The deal's announcement follows WIA at the start of November consolidating its wholesale business under the Novatae banner.

Later in November Novatae announced that it had acquired Dallas-based MGA and wholesale broker MarketScout. Richard Kerr, MarketScout's founder and CEO, was named as CEO of Novatae as part of the deal. WIA is backed by middle market private equity firm Charlesbank Capital Partners.

DECEMBER 06

## SageSure launches FL E&S homeowners product on SURE paper


**Coastal property MGU SageSure and its reciprocal exchange affiliate SURE have launched a new E&S homeowners insurance product in Florida, bringing new capacity into the market amid the ongoing dislocation driven by catastrophe activity and the local litigation environment.**

In announcing the new product, SageSure and SURE said it would bring "much-needed underwriting capacity to producers in the state". They noted that six property insurance carriers in Florida have declared insolvency so far this year, and that many others have chosen to suspend business or leave the state altogether.

"Florida is facing unique challenges in addition to being one of the most catastrophe-exposed areas in the country," said Ed Konar, president of SURE. SURE – or SureChoice Underwriters Reciprocal Exchange – noted that while this is the reciprocal's first foray into Florida, it currently has 120,000 policyholders across North Carolina, South Carolina, Alabama, Mississippi, Louisiana and Texas.

SageSure announced last month it was offering a new admitted flood program in Texas. The new flood program is being offered as an additional coverage on SURE-issued home insurance policies.

# CRC owner Truist looks to unlock value in expansive insurance operations


**The Morgan Stanley-run process understood to be under way to explore the sale of up to 30 percent of CRC Group's parent Truist Insurance Holdings (TIH) is being seen by sources as a way of potentially unlocking value in the fast-growing wholesaler and its stablemates.**

It also reflects the valuation mismatch between standalone insurance distribution players and banks, based on the relative trading multiples of their stocks.

Our sister publication *The Insurer* revealed earlier this month that the process is likely to attract private equity interest and could provide third-party validation of the value of expansive TIH.

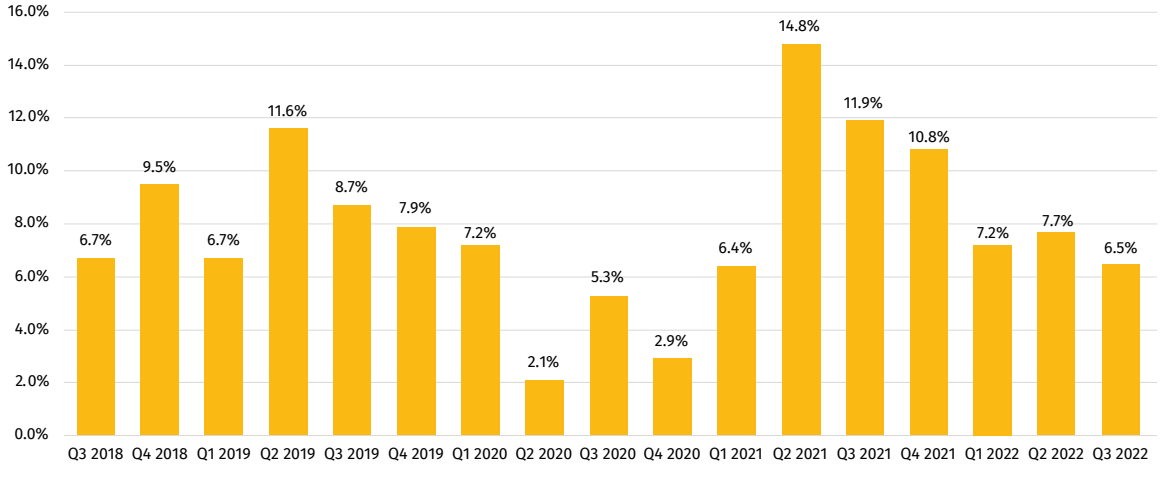
As well as wholesaler CRC, TIH is the parent of retail broker McGriff, MGA giant AmRisc, CRC's recently rebranded MGA platform Starwind, and life, retirement and benefit solutions businesses Crump and BenefitMall.

It ranks as the sixth-largest US insurance broker with revenues of $2.9bn split 59 percent wholesale, 35 percent retail and 6 percent insurance services, according to a recent investor presentation.

Across the platform of businesses, TIH places, underwrites or manages $45bn of premiums, with around 250 offices and 9,000 employees.

Sources said that TIH has launched the process in a bid to secure an independent validation of the group's value, with a sense that it is currently undervalued and underpriced by the shareholders of parent bank Truist Financial Corporation (TFC).

## Truist Insurance Holdings organic growth



They added that macroeconomic headwinds could be impacting TFC's appetite in relation to the M&A strategy of its insurance operations, which may curtail growth opportunities for the platform.

With insurance distribution businesses currently trading or selling for significantly higher price-to-earnings multiples than banks, a sale of a minority stake in TIH could unlock value in the business for its parent, and provide a clearer picture of its worth to shareholders, it has been suggested.

# Top US and global broker rankings

| | 2022 Rank | | 2021 Rank | |
|---|---|---|---|---|
| **Global** | | | | |
| **Ranking** | **Company** | **Rev.** | **Company** | **Rev.** |
| 1 | MMC | 19.9 | MMC | 17.3 |
| 2 | AON | 12.2 | AON | 11.0 |
| 3 | WTW | 8.8 | WTW | 9.3 |
| 4 | AJG | 7.0 | AJG | 6.1 |
| 5 | Hub | 3.2 | Hub | 2.7 |
| 6 | BRO | 3.0 | BRO | 2.6 |
| 7 | Truist | 2.9 | Truist | 2.4 |
| 8 | Acrisure | 2.8 | Lockton | 2.1 |
| 9 | Lockton | 2.7 | Acrisure | 2.0 |
| 10 | Alliant | 2.6 | USI | 1.9 |
| **U.S.** | | | | |
| **Ranking** | **Company** | **Rev.** | **Company** | **Rev.** |
| 1 | MMC | 9.3 | MMC | 8.1 |
| 2 | AON | 5.5 | AON | 5.0 |
| 3 | AJG | 4.7 | WTW | 4.6 |
| 4 | WTW | 4.5 | AJG | 4.1 |
| 5 | BRO | 3.0 | BRO | 2.6 |
| 6 | Truist | 2.9 | Truist | 2.4 |
| 7 | Acrisure | 2.7 | Hub | 2.1 |
| 8 | Alliant | 2.6 | USI | 1.9 |
| 9 | Hub | 2.4 | Acrisure | 1.9 |
| 10 | USI | 2.1 | Alliant | 1.8 |

Source: Wells Fargo

It could also provide a mechanism for a different kind of equity structure for employees that would potentially be a valuable retention tool.

In a 4 November presentation to the BancAnalysts Association of Boston, the bank's chief insurance officer John Howard and CFO Mike Maguire laid out a greater level of detail around the TIH operations and strategy than are usually presented in TFC's financial reporting and earnings calls.

## Valuation mismatch

The presentation noted that while the firm has outperformed peers in organic growth and Ebitda margin, there is significant potential to further enhance value.

This is because publicly traded standalone insurance brokers are currently trading at 20-25x earnings, while banks are valued at only 8-10x earnings.

On a basic calculation of a mid-teens Ebitda multiple of 15x and reported adjusted Ebitda of $815mn for 2021, TIH would be valued at over $12bn, or close to $15bn in the high teens.

That would require a private equity cheque of between $3.6bn and $4.5bn if 30 percent of the business was sold at that valuation.

The size of the cheque needed to acquire a stake that wouldn't give private equity investors control of the business means it may appeal to a limited number of potential suitors, or a consortium, sources suggested.

In a note, analysts from Wells Fargo estimated that Truist's insurance businesses carry a valuation of $15bn based on the broker's public peers, meaning a 30 percent stake would be valued at $4.5bn.

Truist would "need to justify how such a move would sync with its desire to have insurance comprise more of its group earnings", they suggested.

The analysis said the company would also need to show good use for any proceeds from a sale but did acknowledge that monetising the value for a portion of the insurance business "would seem to make incremental sense".

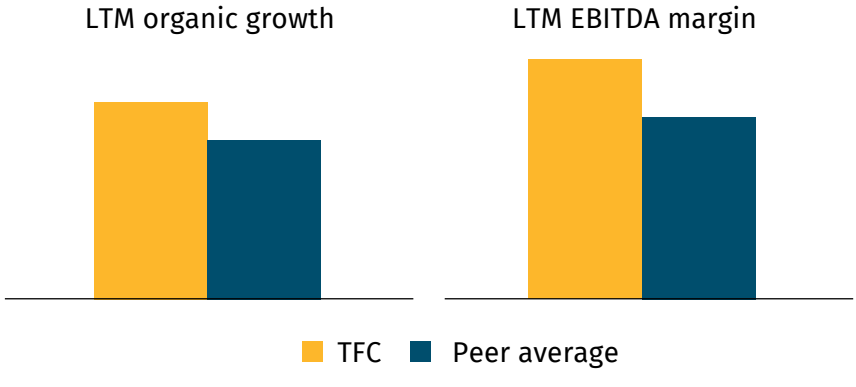
The Wells Fargo note suggested that the move would enable Truist to free up trapped capital equivalent to between 5 percent and 8 percent of its market cap.

## Strong growth

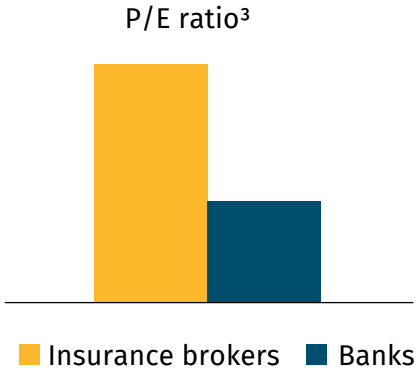
In its recent investor presentation, TFC said its insurance platform is operating in an environment where it has been able to generate strong growth with "significant secular tailwinds", said the presentation. It also offers low correlation to the credit and

## Valuation mismatch

Performance vs peers[2]




Potential to further enhance value




Source: Truist Financial Corporation

interest rates cycle and diversity to its parent bank.

The insurance operations contributed 14 percent of the bank's overall revenue, 34 percent of its fee income and 9 percent of its net income in the 12 months to 30 September 2022.

As previously reported, organic growth at TIH tailed off a little in the third quarter this year to 6.5 percent from 7.7 percent in Q2, compared to a cycle high of almost 15 percent in the second quarter last year.

The presentation also highlighted investments TIH has been making in the platform, including "best-in-class" data and analytics, targeted tuck-in acquisitions and the development of a broker-assisted digital insurance platform to better deliver solutions to Truist clients.

It pointed to the so-called IHOP 2.0 growth strategy that includes 24 initiatives to drive the next phase of growth, including investments in talent, delivery model and technology, and a bid to scale industry verticals and grow underpenetrated verticals in retail.

TIH is the rebranded BB&T Insurance Solutions following the merger of bank BB&T with rival SunTrust Banks to form TFC in late 2019.

The last two decades have seen the insurance operations grow from well under $500mn at the time of the acquisition of CRC to the size it is today, representing a compound annual growth rate of 12 percent including organic growth of 6 percent.

Other key acquisitions included CRC buying Crump in 2012 and Swett & Crawford in 2016, while on the retail side Regions Insurance Group was acquired in 2018 and rebranded under the McGriff name as McGriff Insurance Services.

**Truist Insurance Holdings track record**

**Sustainable growth and improving margins**


Source: Truist Financial Corporation

CRC and TIH significantly expanded their MGA operations with the acquisition of Constellation Affiliated Partners – now branded under Starwind – last year.

McGriff places around $10.5bn premiums with a strong focus on middle market and specialty business; CRC commercial solutions places around $12bn in premiums; life, retirement and benefit solutions represent around $17bn in premiums; and the specialty programs business including AmRisc and Starwind manage $5bn of premiums.

A TIH spokesperson said the company does not comment on market rumours or speculation.

## Truist CEO swerves sale question

TFC CEO Bill Rogers declined to comment on reports by this publication that the bank is contemplating a sale of up to 30 percent of its insurance platform as he addressed investors at a Goldman Sachs conference last week.

Rogers – who is also TFC's president and chairman – was not asked to comment directly on a potential partial sale.

Goldman Sachs equity research managing director Ryan Nash instead asked the executive to comment hypothetically how the bank might think about selling and whether it would be a move to unlock value and would be viewed as offensive or defensive.

"I'm not going to go down the hypothetical path with you, but I do appreciate the attempt," said Rogers.

But he was prepared to comment more generally on the insurance business. Rogers highlighted the "prowess and capability" as well as the leadership, integrated relationship management capability and advice capability within TIH.

"And the insurance business is a growing business … and it's a scale business. And it's in a business we want to make sure that we can continue to invest in, we can continue to grow, we can continue to have its relevance. I think we've got an incredible team that's been able to assimilate a lot of acquisitions over time," he said.

Rogers pointed to the value of the insurance business as a standalone, but also as part of Truist, where it allows the group to cross-sell insurance and banking solutions to customers.

"Keep in mind that we're the only institution … of scale that can have that conversation with the client and look at their overall management of risk at their company from soup to nuts, and that's just an advantage that we don't want to compromise," he concluded.


# Zurich commits to property cat and eyes top 10 E&S position

**Zurich North America remains committed to writing property cat through its newly formed dedicated E&S platform but will look to rebalance its portfolio as it grows in casualty, while securing additional rate as the carrier targets becoming a top 10 surplus lines player overall, according to Christopher Lewis.**

Zurich announced the hire of Lewis from International Financial Group as executive vice president and head of its standalone E&S unit in May.

The insurer has long been a writer of E&S business, but had previously accessed it through its national accounts and middle market underwriting teams rather than with a dedicated unit.

Industry losses from Hurricane Ian and a rapidly hardening reinsurance market have compounded a capacity crunch in US property cat insurance, leading to speculation about carrier appetites and potential retrenchment in 2023.

But in an interview with this publication, Lewis said "a significant portion" of Zurich's E&S portfolio is in property cat, and the carrier will continue to write the business.

## Christopher Lewis CV

**Current role**
Head of Excess & Surplus Zurich North America (since May 2022)
**Previous positions**
IFG Companies – group president and CEO, previously EVP and CRO (2014-2021)
The Hartford – chief insurance risk officer and various other roles (2004-2013)
Fitch Risk Management – MD, head of advisory services (2002-2004)

"We are committed and we're going to continue to write property cat. We're not looking to expand our risk exposure in Florida, but we're going to obviously grow premium significantly with what we expect will be continued improved conditions," said Lewis.

"Like any carrier, we constantly rebalance our exposures and make sure we have the right spread of risk. But if you look at the environment in Florida post Ian and post Nicole, we continue to write business there, even as some carriers have pulled back. "We still need to continue to see improvement in rates though, and in terms and deductibles, and we will remain disciplined in how we deploy limits," Lewis added.

## Zurich eyes E&S growth

Among his responsibilities, Lewis has been tasked with building out the newly minted dedicated E&S platform in the burgeoning surplus lines marketplace.

"We had the products, we had the balance sheet and we had the ingredients, but we just didn't have the focus and the distribution strategy that would align them," said Lewis.

## Top 16 surplus lines writers in 2021

**Ranked by direct premiums written**

| Rank | Group name | Surplus lines DPW ($ thousands) | YoY DPW % change | Surplus lines market share (%) |
|---|---|---|---|---|
| | **Lloyd's** | **13,871,953** | **8.2** | **16.6** |
| 1 | Berkshire Hathaway Ins Grp | 4,212,256 | 18.4 | 5.0 |
| 2 | American International Grp | 4,177,807 | 17.7 | 5.0 |
| 3 | Markel Corporation Grp[1] | 3,530,213 | 26.5 | 4.2 |
| 4 | Fairfax Financial (USA) Grp | 2,997,286 | 37.9 | 3.6 |
| 5 | W. R. Berkley Insurance Group | 2,820,382 | 24.7 | 3.4 |
| 6 | Nationwide Group | 2,611,335 | 16.3 | 3.1 |
| 7 | Chubb INA Grp | 2,442,535 | 25.9 | 2.9 |
| 8 | Liberty Mutual Insurance Cos | 2,208,819 | 29.4 | 2.6 |
| 9 | XL Reinsurance America Grp | 1,906,397 | 14.5 | 2.3 |
| 10 | Alleghany Insurance Holdings Grp | 1,660,032 | 29.2 | 2.0 |
| 11 | Sompo Holdings US Grp | 1,624,567 | 36.8 | 1.9 |
| 12 | Starr International Grp | 1,440,373 | 33.2 | 1.7 |
| 13 | QBE North America Insurance Grp | 1,284,541 | 33.9 | 1.5 |
| 14 | Tokio Marine US PC Grp | 1,258,541 | 34.0 | 1.5 |
| 15 | Axis US Operations | 1,243,936 | 33.5 | 1.5 |
| 16 | Zurich Ins US PC Group | 1,195,708 | 6.9 | 1.4 |

1 Includes State National Group companies
Source: AM Best

"Zurich had always been a player, but now we're making the investments to get us back to being a leading contender in the E&S space," he stated.

"Zurich North America is a top five commercial writer in the US, and in the world. In E&S, we're probably a top 20 player ... [and] our goal is to be at least top 10," Lewis said.

"We want to build a sustainable platform and so we're building out the products that really are meaningful to our wholesale producers to get us into that top 10.

"If we do better than that, then that's great, but we're also focused on profitability. We're not going to try to grow very rapidly from a top line perspective if that's going to sacrifice profitability.

**"Zurich had always been a player, but now we're making the investments to get us back to being a leading contender in the E&S space"**

Zurich's Christopher Lewis on E&S ambitions

We want to grow a long-term, profitable franchise for our wholesale partners that they can rely on."

As per AM Best data, Zurich wrote $1.2bn of surplus lines direct premiums written (DPW) in 2021, up 6.9 percent year on year. That put it in 16th place based on DPW.

In 10th spot was Alleghany Insurance Holdings Group, whose various entities collectively wrote $1.7bn of DPW last year, growth of 29.2 percent year on year.

While Lewis would not provide a definitive timetable for when Zurich hopes to reach its surplus lines goal, the executive said its focus is on growing profitably.

## New products

As Lewis explained, Zurich's E&S DPW is fairly evenly split between its programs portfolio and what he said is core P&C business which includes large account property, excess casualty, financial lines, construction and specialist energy.

"We've got the balance sheet to be able to be a significant player in both [large account property and excess casualty] and to take advantage of some of the market dynamics we see in those," said Lewis.

"We've got a great platform, and what we'll probably be looking to build out over time is in primary GL and primary casualty products to complement it," he added.

"To be successful in this space, you need to have the right product, you have to have the balance sheet, the rating, the capabilities, and we're investing in that." Zurich's E&S team numbers 125 to 150 people currently, and Lewis said the company is looking to add more staff to support the platform's build-out.

"It all comes down to talent and underwriting, and that's one of the things where we have a competitive advantage because we've got a great resource of talent within our Zurich E&S group, but also across Zurich North America," Lewis stated.

## Continued E&S expansion

The E&S market maintained its rapid growth in 2022, with AM Best forecasting the sector will surpass $100bn of premium this year – up from 2021's $83.6bn.

Lewis predicts the challenges in the property market, and especially in catastrophe-exposed areas, mean that part of the E&S market "will continue to grow at a significant clip" in 2023.

But it is a different story in the primary and excess casualty space. "I think we're seeing a plateauing in that market," Lewis said.

"Rates are still, for us, ahead of loss costs which is important, especially with litigation trends and inflation.

But there is a little bit of a fatigue in terms of the double-digit rate increases coming through on excess casualty, and even primary casualty where it's now more low single digits.

**"We've got the balance sheet to be able to be a significant player in both [large account property and excess casualty] and to take advantage of some of the market dynamics we see in those"**

Zurich looking at opportunities in E&S large account property and excess casualty

"So it's well written, profitable business, but I think the growth is going to temper somewhat," Zurich's E&S head predicted. "We'll still get a nice healthy E&S market growth for 2023, but it's going to be mixed by line of business."

The tighter constraints and rules on admitted carriers around rate and form mean that business will transition over to the E&S market, while esoteric risks such as cyber – which continues to be a growing sector – will naturally find a home in the surplus lines space.

"There are going to continue to be new risks and new opportunities that will require future solutions.

Blockchain is one of those, and writing older property occupancies is another. We'll have to figure out how we solve some of those challenges as a market.

"But long term, we continue to have an optimistic view that the E&S market is going to grow over time," Lewis said.

# Limit launches management liability offering


**Digital wholesale broker Limit has broadened its product offerings with six management liability products in response to what the insurtech's CEO John Loeber told *E&S Insurer* was a "clamoring" from its retail agency partners.**

The suite of management liability products now being offered by Limit includes directors and officers (D&O), employment practices liability (EPL), crime, fiduciary, miscellaneous E&O, and kidnap and ransom.

Those management liability coverages are being offered via the same digital infrastructure that enables Limit to provide instant quoting for its existing cyber and tech E&O products from its more than 40 carrier partners. Loeber said "between 20 and 30" of those carriers will also support its new management liability offerings.

Heading up Limit's management liability offering is senior broker Mary Sharp, who joined the insurtech from Hub International last year.

The move into management liability comes at a time when various market reports have detailed how the rampant price rises within the D&O space in recent years have dampened, with an influx of capacity resulting in increased competition.

Heightened competition in the EPL space is also putting pressure on rates with more modest price rises, while primary layer rate increases in the E&O market are moderating, although excess pricing remains elevated.

## SME focus

Limit's management liability products are predominantly targeted at the same client base that its existing cyber and tech E&O offerings are aimed at – SMEs with revenues under $50mn. Loeber said there has been some softening in the management liability market "across the board".

"But nonetheless, it is still a challenging product to procure. Even if somebody can procure it on their own, they're still going to spend a lot of time doing it, and so if we can make that process easier we think there's significant value in that," said Loeber.

"The general tenor of our business is different from the large market wholesalers. We primarily act as an access and convenience player in the space. Our insureds are largely SMEs – $50mn in revenue – not impossibly difficult accounts, but they can be tedious to place all the same.

"And that's where we add a lot of value - we make the process fast and efficient and restore some time to the retail agents."

Limit's management liability move comes shortly after the wholesaler announced in October that it raised $14.5mn in seed and Series A funding from backers including IA Capital Group and American Family Ventures.

## Headcount grows

At the time, Limit, which initially began life in 2020 as Apollo Brokers before a rebrand in September this year, said the capital raised would be used to support the hire of additional staff and its entry into new lines of business.

The digital broker has added some 15 people in the past few months, and its headcount now numbers around 40. "It's important for us to have not just great technology, but also real insurance professionals and expert brokers on the team who can get the job done.

"That's really important when you're dealing in these specialty products because there's often nuance and complexity, and at that point you need a broker to fill in what an automated system might be unable to do," Loeber said.

## Broadening appetite

Going forward, Loeber said he expects the nature of Limit's client base will broaden as the wholesaler's retail broker and carrier partners become more accustomed to its technology.

"We don't put any constraints on what we're willing to take on," said Loeber. "Our portfolio is overwhelmingly small business but thanks to our expert brokerage team, we do have some mid-market and large accounts.

"We insure a handful of public companies, for example, and so we are happy and willing to take on those types of accounts as well. It's just that our book composition gears toward the smaller end," he explained.

The insureds Limit can take on for its instant quoting platform will also grow in size as carrier application programming interfaces, or APIs, develop, Loeber suggested. "Carrier APIs that are available for instantaneous quoting are generally for low revenue submissions - $50mn and under is where a lot of carriers have their sweet spots," said Loeber.

Specialty carriers are still getting comfortable with fully automated underwriting, but as Loeber explained, as they see its benefits their appetite will grow. "That in turn is going to allow us to offer instantaneous quoting experiences for even $100mn or $150mn companies, hopefully not too far out in the future," said Loeber.

"As it stands, we're seeing good utilization from our agents which proves to us that we're supplying high quality, winning quotes in short turnarounds," he added.


# A wholesale commitment

**In September this year, Liberty Mutual became the latest carrier to draw a line between its retail and wholesale operations, with its Ironshore unit exclusively available to the wholesale distribution channel.**

*E&S Insurer* sat down with Matt Dolan, president of Liberty Mutual's domestic specialty E&S-focused division, to explain the rationale behind the move and talk about the outlook for the sector.

**E&S INSURER Ironshore was acquired in 2017, why make the transition to wholesale only now?**

Ironshore was already an active specialty and E&S carrier with well-established engagement with the wholesale community, although we were not exclusive to that channel. Back in 2019 we continued to see the active expansion of the E&S market that went beyond the more typical migration pattern during a hardening market.

We believed it to be more structural than cyclical, so we were very intentional about figuring out how to organise into that space as effectively and coherently as possible with the greatest amount of impact. We realised that leveraging our existing wholesale relationships into

## Matt Dolan CV

**Current position**
President of Liberty Mutual's domestic specialty E&S-focused division
**Previous**
President NA specialty and Ironshore, EVP of Global Risk Solutions at Liberty Mutual Insurance
President of Ironshore Insurance (2008-2018)
President and co-founder of OneBeacon Professional Partners (2002-2008)

**"Certainly we think that the structure and price of risk has improved – but we have to be mindful of the latent fault lines like litigation funding, the reemergence of social inflation, institutional mistrust, businesses under stress taking shortcuts, labour shortages"**

the Ironshore brand was a pretty good mechanism, so we began a very deliberate progression.

We recognised the wholesalers' importance to the E&S marketplace and that their relevance was proportionate to the increasing complexity in the E&S space. So, we wanted to get better alignment and a clear commitment to that channel, get underwriters aligned to it so we could develop clearer insights into their inventory better and they would have a more effective, aligned transactional interface with us.

We would protect them so if a wholesaler came to us one year, then the retailer couldn't just attempt to disintermediate them the next year.

## Top 10 surplus lines writers in 2021

**Ranked by direct premiums written**

| Rank | Group name | Surplus lines DPW ($ thousands) | YoY DPW % change | Surplus lines market share (%) |
|---|---|---|---|---|
| | **Lloyd's** | **13,871,953** | **8.2** | **16.6** |
| **1** | Berkshire Hathaway Ins Grp | 4,212,256 | 18.4 | 5.0 |
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| **3** | Markel Corporation Grp[1] | 3,530,213 | 26.5 | 4.2 |
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| **8** | **Liberty Mutual Insurance Cos** | **2,208,819** | **29.4** | **2.6** |
| **9** | XL Reinsurance America Grp | 1,906,397 | 14.5 | 2.3 |
| **10** | Alleghany Insurance Holdings Grp | 1,660,032 | 29.2 | 2.0 |

1 Includes State National Group companies
Source: AM Best

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We began to organise into this critically important strategic initiative which included scaling back, very meaningfully, the number of retail brokers that had access to our specialty and E&S products.

This was an important signal to the wholesalers and it allowed us to leverage access, influence and expertise. As a result, we saw an increase in the quality and quantity of our production activity within the wholesale space.

This engagement and alignment was having the intended impact and it culminated in the Ironshore wholesale announcement which really just codified all those other things we had already done.

**E&S INSURER What are the advantages of having a dual distribution strategy for Liberty Mutual's domestic specialty E&S products at Liberty GRS?**

The commitment to the wholesale channel creates a model of alignment and engagement that leverages our product breadth and depth with the expertise of the wholesale channel.

**"If the retailer sees value in utilising a wholesaler, they will. Sometimes there's an expertise proposition for them, or an access proposition for them, and sometimes there is an efficiency component as well. We don't have to create the value for the wholesalers – but we should reinforce or augment it"**

In addition, flexibility and optionality are important. We believe in the value both the retailer and the wholesaler brings to the transaction and we want to be in position to augment and leverage that value for maximum impact.

If the retailer sees value in utilising a wholesaler, they will. Sometimes there's an expertise proposition for them, or an access proposition for them, and sometimes there is an efficiency component as well. We don't have to create the value for the wholesalers – but we should reinforce or augment it.

And the wholesale channel has evolved: they have expanded their use of data and they manage their markets and with increasing levels of sophistication. In this regard there are tremendous opportunities to match appetite with inventory to engage more strategically.

**E&S INSURER What is your outlook for the E&S market going into 2023?**

We were already anticipating a tight property market rolling into 2023 [before Ian]. There was a lot of uncertainty about what the cost of reinsurance would be and inflation continues to be a cost factor. Ian accelerated and amplified that to a very meaningful degree.

I think collectively the carrier community is thinking very seriously about what proportion of their total capital and portfolio they want to allocate to wind-exposed property cat.

And as such, I think there's going to be a very appropriate price tightening and I think there's going to be an intense reevaluation of the price, structure and risk-reward balance.

I think [wholesale brokers] thrive during times of market dislocation and see it as an opportunity to emphasise their value.

**"E&S is now 20 percent of the US-insured marketplace. That speaks to not only the market and the cyclical piece, but to this underlying complexity and challenge that the wholesalers have been very thoughtful about. So I think the captivity into the E&S is greatly enhanced"**

Business has moved into the E&S market and as the operating environment for insurance continues to get more and more complex, requiring bespoke customised solutions, that's E&S.

E&S is now 20 percent of the US-insured marketplace. That speaks to not only the market and the cyclical piece, but to this underlying complexity and challenge that the wholesalers have been very thoughtful about.

So I think the captivity into the E&S is greatly enhanced. We'll still see some ebb and flow but not nearly the same degree, in my opinion.

**E&S INSURER What is your approach to property cat?**

At the end of the day, property cat is an important product – but our job is to get paid for the risk we take.

When we right price the business, we stabilise the cost of this important coverage for insureds over time which is critical as brokers and buyers struggle when huge price and appetite swings in the market Given the impact of climate change and the speed, intensity and impact of weather-related events, the industry needs to continue to enhance our capabilities, including our modelling, accordingly and who we allocate it to and where we allocate it.

We have to get better at that and the industry does too. So we will take a very measured approach regardless of where rates go.

**"At the end of the day, property cat is an important product – but our job is to get paid for the risk we take"**

E&S INSURER **Do you see any slowdown in momentum outside of property?**
I don't know that anybody would say we've reached an equilibrium point [on other lines], that we have achieved the optimum balance between price and risk. Risk is fluid, complex and emergent so we have to continue to bring a very contemporary and sophisticated lens to the equation.

Certainly we think that the structure and price of risk has improved – but we have to be mindful of the latent fault lines like litigation funding, the reemergence of social inflation, institutional mistrust, businesses under stress taking shortcuts, labour shortages. So there's still real risk in the system.

## The four fundamentals of cat risk portfolio management post Ian

With Liberty taking a cautious approach in property cat, Dolan highlighted four fundamental areas that are key to underwriters in negotiating a challenging and evolving risk environment. He said that transactional limit management is critical for carriers. In recent years many carriers have gone through the exercise of shortening limits from the days when some of the largest carriers were boasting line sizes in the hundreds of millions and writing some commercial risks 100 percent.

Dolan also highlighted concentration of risk, where a carrier deploys its cat aggregate and how it thinks about balance and distribution, as an area of importance. Price is a key factor, but the executive said that quality of insured is also increasingly important, and their ability to demonstrate they're continuing to fortify against the impact of cat events.

"Inevitably what happens when there's market disruption is one or two of those things get out of bounds: rate maybe, or structure. But when it goes really bad, all of them get out of bounds," he commented. But Dolan added that the market had not let those factors get out of bounds pre-Hurricane Ian.

"The interesting thing here is that this wasn't that bad: structures were pretty good; price was pretty good; the deployment of agg was pretty responsible; and the quality of insureds was generally good.

"This was not self-inflicted, this wasn't an irresponsible market getting caught being too aggressive with price, terms and conditions. The market has been much more thoughtful about these kinds of things and yet it is still a big event," he commented.

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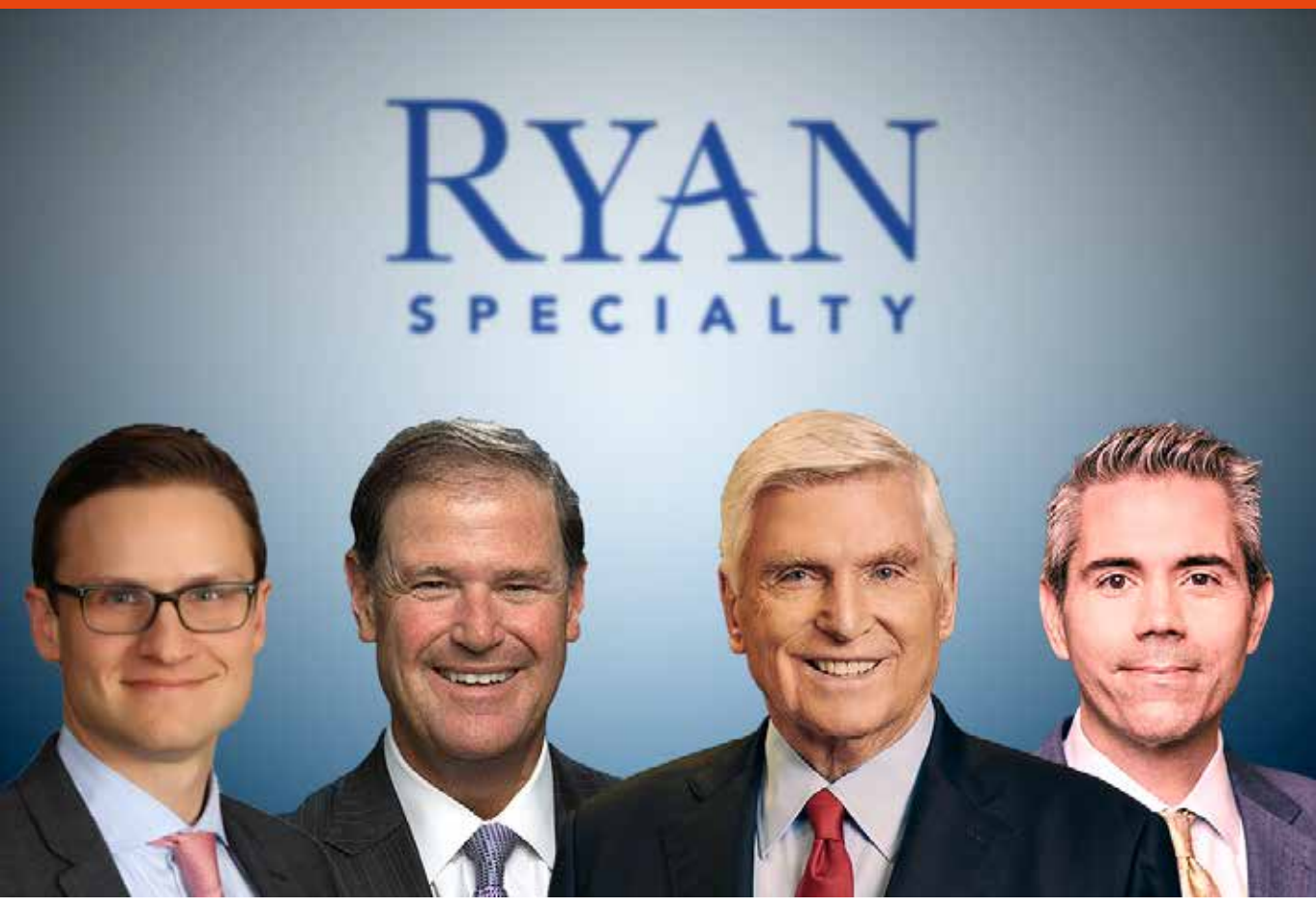



# Ryan Specialty reassures investors on E&S growth trajectory

**Ryan Specialty chairman and CEO Pat Ryan has said the reference to a slowdown in the E&S market on the intermediary's third quarter earnings call was an "inadvertent communication" error as he told a Goldman Sachs investor conference that rates are hardening in most lines and submissions are strong.**

As previously reported, the wholesale broker and underwriting platform revealed a slowing in organic growth for the third quarter to 13.7 percent as it modestly revised down its forecast for the year.

It also talked about a slight indication of a slowdown in the flow of business into the wholesale channel based on stamping office data in October.

Investors reacted badly to the news and sent Ryan Specialty's stock down more than 20 percent the day after the earnings release and call.

At the Goldman Sachs investor conference last Tuesday, Ryan described a solid third quarter and said the vital signs of the E&S market are "really strong".

**"The E&S market is very robust, but it bounces back and forth, and we referenced a one-month period – we're not going to do that again because it confused people. But our founding thesis and our competitive position is strong as it has ever been"**

Ryan Specialty founding chairman and CEO Pat Ryan says a comment on the firm's third quarter earnings call was an "inadvertent communication"

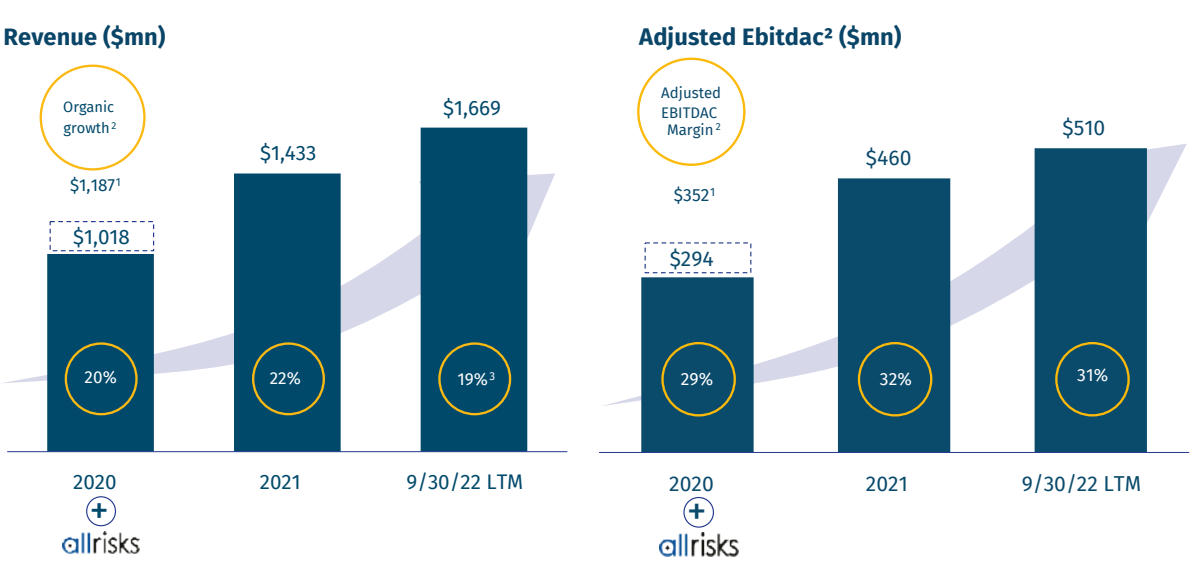
"Rates are hardening, continuing to harden in most lines, particularly in property," said the veteran industry entrepreneur, highlighting a big disparity between demand and supply.
He said that Ryan Specialty is "well-positioned" to retain the property capacity it has expiring at 1 January, and that the firm will have "significant new opportunities" for partners in other lines that have committed to provide more capital.

"But very importantly … our submission rates are strong [and] they continue to be strong across all lines. So when we talked about an E&S slowdown, it was an inadvertent communication there," he said.

"The E&S market is very robust, but it bounces back and forth, and we referenced a one-month period – we're not going to do that again because it confused people. But our founding thesis and our competitive position is strong as it has ever been," said Ryan.

He added that the firm had a "unique beginning" with double-digit organic growth through the first 12 years of its life.

## Ryan specialty generates top and bottom line growth momentum




[1] Only Revenue of $1,187mn and Adjusted EBITDAC of $352mn include the pro forma effect of All Risks, transaction closed 9/1/20
[2] Non-GAAP measure, please see the appendix for a reconciliation of Organic Growth, Adjusted EBITDAC, and Adjusted EBITDAC Margin to the most comparable GAAP measure
[3] Represents the period YTD September 30, 2022

"For the year there are quarters where you don't get that and certainly that is reflected in our guidance for the rest of the year. But the important thing is that we're providing real value-add to our retail brokers and it's never been stronger," said the executive.

He pointed to M&A activity that had driven overall growth, as well as secular drivers that spurred Ryan Specialty's foundation such as panel consolidation and the growth in delegated authority underwriting and distribution, which he said are all very strong going into 2023.

**"Today, states like Florida, most of us focus on the cat wind problem in Florida, but the casualty problem in Florida could be as bad. Most standard markets are pulling out of classes like habitational"**

Tim Turner highlights the casualty problem in Florida

"So what we say is you can't take a quarter and extrapolate it into a year. In our niche, you've got to take the whole year [because] there will be some bouncing around by quarter," said Ryan in his opening remarks.

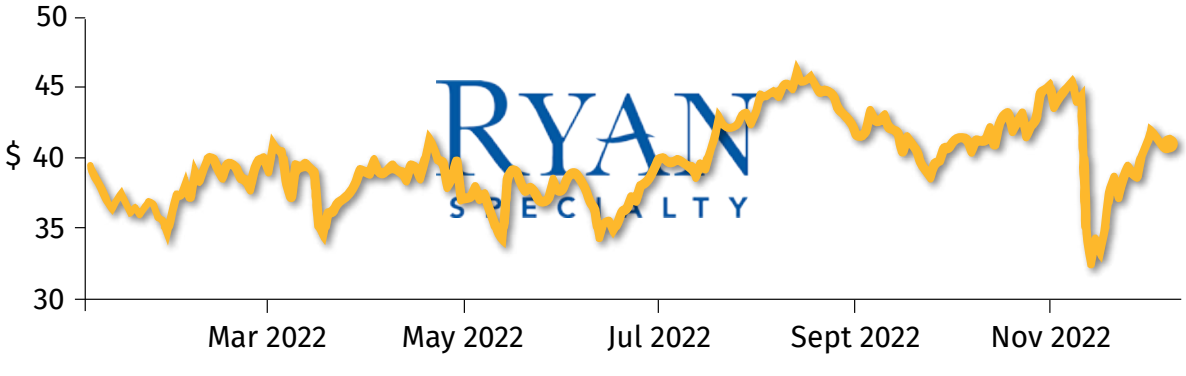
## Property cat rates up 50-100%

Other management speaking at the event included president Tim Turner, CFO Jeremiah Bickham and Ryan Specialty Underwriting Managers president and CEO Miles Wuller.

Turner said he expects E&S market-level growth that has been in the double-digit range for the last five years will be sustained in 2023.

"While the overall growth continues there are these niche firming phenomena that continue to occur in North America, a lot of it due to losses tied to social inflation and global warming, cat property being the latest one.

## Ryan Specialty share price recovers after dip



"Most experts predict that cat property rates will go up 50-100 percent, and that's on the existing book. So shifting flow into our channel will obviously drive growth even further," he commented.

Ryan later commented that property cat hardening would be more significant than expected next year.

"In many cases on accounts with historical losses, they could be as high as 100 percent increases. So everybody is going to be scrambling for capacity. There will be a need for insureds to take bigger self-insured retentions and to possibly invest in captive opportunities, and there's going to be a sharing of risk," said the veteran executive.

## Q4 headwinds

Ryan Specialty management were asked to comment further on headwinds affecting the business that were part of the driver behind the adverse investor reaction following the Q3 earnings call.

CFO Bickham highlighted market conditions in order of least severe to most severe: construction, which shows up in the firm's wholesale brokerage specialty; M&A-related risks impacting specific programs in its Ryan Specialty Underwriting Managers business; and public D&O, which impacts both wholesale brokerage and underwriting managers.

"What we witnessed in Q3 in the most significant headwind of public D&O was a rapid deceleration of rate … and some of the business that was historically not in the wholesale channel leaving the wholesale channel.

"What we've assumed in Q4 is that all those headwinds persist or get worse. No regrets on the guidance we have and the implication for Q4, as we sit here today on December 5 I think we're going to land spot-on within that guide range," he said.

The executive added that headwinds – especially in D&O – will persist at least through the first half of 2023.

"But the important thing to remember is what Pat said earlier – don't look at a quarter and extrapolate and certainly don't look at a quarter like Q4 and think that's a new long-term trend.

"What we said on the Q3 call is that all the long-term secular growth drivers that got us here and underpin this baseline of double-digit organic growth are all intact.

And while we're certainly going to have a bumpy Q4 of 2022 and probably some noise in H1 2023, what we said about being a double-digit organic grower still applies, even to 2023," Bickham suggested.

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**"Most experts predict that cat property rates will go up 50-100 percent, and that's on the existing book. So shifting flow into our channel will obviously drive growth even further"**

Tim Turner, president of Ryan Specialty, on the rehardening of the property cat market

He highlighted the "dramatic" change to forms in property with a switch away from all perils coverage, and said there would be a big responsibility for retail and wholesale brokers to make clear to insureds what is and isn't covered.

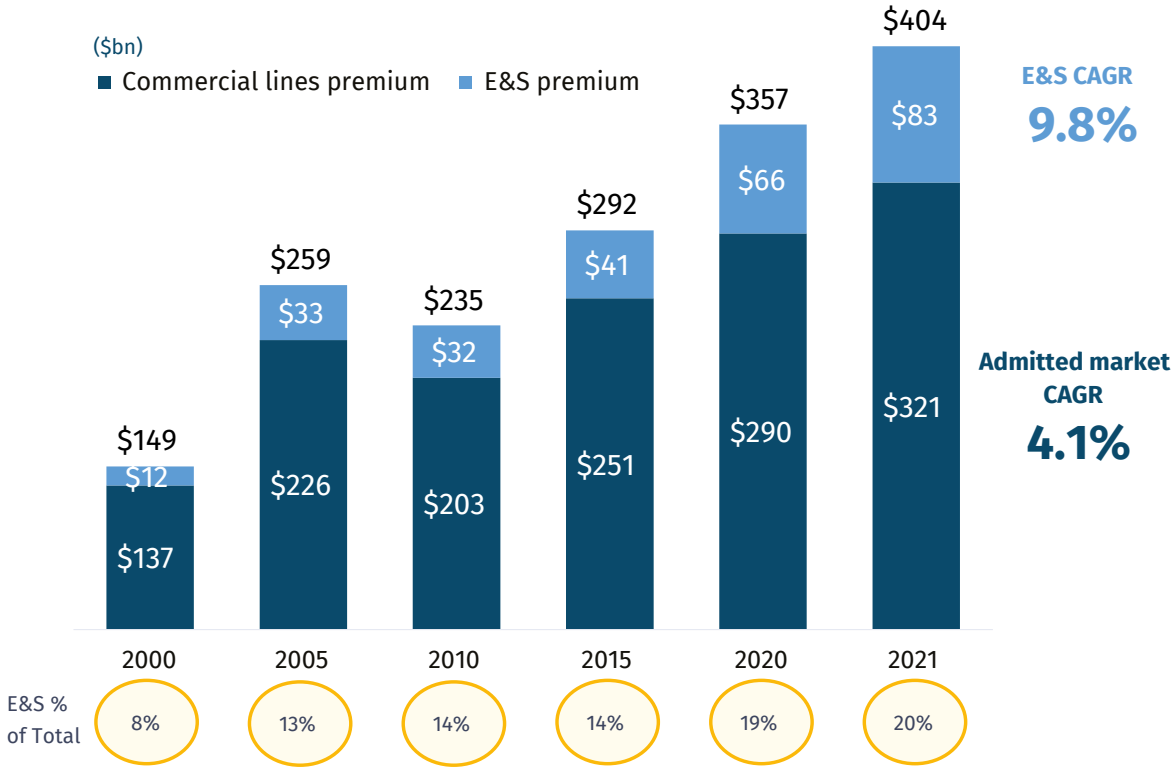
"It's just the beginning of a very hard market that's going to be short on supply," he said.

## Shedding and dumping

Turner highlighted some of the dynamics that continue to support the broad trend for business to flow into the wholesale channel and to E&S insurers, as demonstrated by continued strong momentum this year recorded by the surplus lines stamping offices.

## Total addressable market is poised for further gains

E&S premiums & total North America commercial P&C premiums




Source: SNL, AM Best September 6, 2022 Market Segment Report

"Most classes of business that we succeed in are loss leaders in the reinsurance world, so there is a direct tie to unprofitability and the standard market.

The admitted markets have filed rates, terms and conditions, and when they can't achieve that profitability they have no choice but to dump the business and to non-renew it," he observed.

Turner said that pattern is continuing to be seen across eight to 10 practice group verticals in the E&S industry, with property cat just the latest and most obvious example of where admitted carriers are shedding and dumping business that is unprofitable to them.

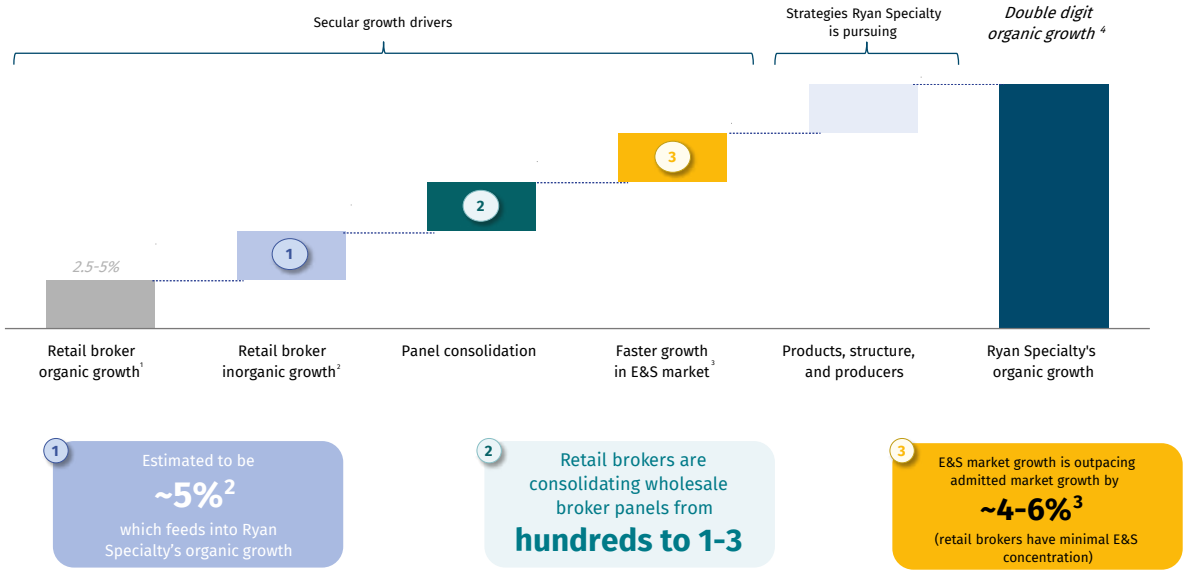
He also highlighted healthcare, transportation and construction as three segments where business continues to pour into the wholesale channel – areas where Ryan Specialty has invested heavily in its capabilities.

"In these high hazard niches that we broker and we build facilities to strengthen the trading relationship and [provide] more value-add in our trade with the retail brokers," said the executive.

Turner pointed to the impact of social inflation as the number one driver of losses in the casualty and liability market, which is causing a prolonged hard market in many classes of business.

"Today, states like Florida, most of us focus on the cat wind problem in Florida, but the casualty problem in Florida could be as bad.

## Financial results driven by market fundamentals




[1] Represents 2019, 2020, and 2021 public commercial insurance brokerage median organic growth
[2] Represents approximated inorganic growth
[3] Represents approximate E&S market outperformance relative to the admitted market over the past decade
[4] Non-GAAP measure, please see the appendix for a reconciliation of Organic Growth to the most comparable GAAP measure

Source: SNL, AM Best, company filings; Public insurance commercial brokerage median includes AJG, AON, BRO, BRP, MMC, and WLTW

Most standard markets are pulling out of classes like habitational [or] any kind of sports and entertainment, higher education, social services and human services platforms being affected in states like Florida, New York, California.

"We don't see that subsiding, we see that getting worse, unfortunately," he commented.

## Delegated authority innovation

Wuller added that on the delegated underwriting authority side of the business, "in addition to the increasing risk landscape, our diverse portfolio continues to attract more capital from existing carriers so that will be a source of ongoing support and growth as we manage more carrier capital".

**"As we develop that track record several things are happening, people that have supported us on individual lines are now supporting broader portions of our portfolio"**

Miles Wuller, president and CEO Ryan Specialty Underwriting Managers, says adding capacity is a major source of growth for the firm

And he highlighted ongoing innovation and new lines of business in areas like excess casualty, where Ryan Specialty launched a facility earlier this year.

"I also want to emphasise that adding capacity to our incremental lines is a major source of growth. We are delegated on our track record and we are managing carrier capital on an outsourced basis.

As we develop that track record several things are happening, people that have supported us on individual lines are now supporting broader portions of our portfolio," he commented.

One example is Aspen, which – as previously reported – has gone from supporting one line to supporting 10 of the underwriting platform's programs.

Wuller also said another carrier has taken a 5 percent line across most of its business.

"How does that flow into organic [growth]? Cyber is that example where we were able to double our capacity under management and we were able to increase the line sizes we deploy by 50 percent," he revealed.

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The gathering will be highly informative with a half-day conference highlighting key trends, opportunities and challenges that shape the strategy and decision making of market participants, as well as an evening champagne reception and dinner-style awards ceremony, attracting over 300 market professionals from the US and overseas.

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**Delegate registrations for the conference will open soon. To reserve your place in the meantime, get in touch with Beatrice Boico at beatrice@wbmediagroup.com**

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